ANNUAL REPORT 2019

GROWING CASHFLOWS

TAG Immobilien AG

GROUP FINANCIALS

in EUR m

Income statement key figures	2019	2018	2017 (adjusted)
Rental income (net rent)	315.0	302.2	293.0
EBITDA (adjusted)	214.7	206.4	198.3
Consolidated net profit	456.4	488.2	313.7
FFO I per share in EUR	1.10	1.00	0.87
FFO I	160.6	146.5	127.4
AFFO per share in EUR	0.64	0.60	0.58
AFFO	93.9	88.4	84.6

Balance sheet key figures	12/31/2019	12/31/2018	12/31/2017
Total assets	5,647.0	5,033.3	4,634.5
Equity	2,394.2	2,048.3	1,646.6
Equity ratio in %	42.4	40.7	35.5
LTV in %	44.8	47.3	52.3

Portfolio data	12/31/2019	12/31/2018	12/31/2017
Units	84,510	84,426	83,140
Real estate volume	5,302.4	4,815.5	4,275.4
Vacancy in % (total)	4.9	5.3	5.8
Vacancy in % (residential units)	4.5	4.7	4.8
I-f-I rental growth in %	1.9	2.3	2.0
I-f-I rental growth in % (incl. vacancy reduction)	2.4	2.6	3.1

EPRA key figures	12/31/2019	12/31/2018	12/31/2017
EPRA Earnings per share in EUR	0.96	1.10	0.77
EPRA NAV per share in EUR	20.45	17.32	13.80
EPRA NNNAV per share in EUR	16.33	14.43	11.02
EPRA Net Initial Yields in %	5.4	5.8	6.3
EPRA Vacancy Rate in %	5.3	4.8	5.7
EPRA Cost Ratio (incl. vacancy costs) in %	31.2	31.7	32.4
EPRA Cost Ratio (excl. vacancy costs) in %	28.7	29.1	29.8

Employees	2019	2018	2017
Number of employees	1,160	993	961

Capital market data	
Market cap at 12/31/2019 in EUR m	3,246.4
Share capital at 12/31/2019 in EUR	146,498,765
WKN/ISIN	830350/ DE0008303504
Number of shares at 12/31/2019 (issued)	146,498,765
Number of shares at 12/31/2019 (outstanding, without treasury shares)	146,336,950
Free Float in % (without treasury shares)	99.89
Index	MDAX/EPRA

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FOREWORD

FOREWORD BY THE MANAGEMENT BOARD

Dear Shareholders,
Ladies and Gentlemen,

Matters of sustainability are one of the most discussed topics at the moment. Questions about sustainability targets, the effects of business activity on the environment and society, and about long-term corporate planning are changing public perception and their view on companies. Here, it is often overlooked that sustainability pertains not only to environmental matters, but also to questions of good corporate governance, and especially to social aspects, whose importance should not be underestimated, especially for residential companies. Because social aspects include, in particular, customer relations, i.e. the relationship between the residential companies and their tenants.

In this area, at TAG we have what we believe is a truly sustainable edge, as most of our portfolio is in regions where homes are still affordable. Of course, rents rise in the locations we manage, too, but in the vast majority of cases, the housing cost burden, i.e. rents in relation to the tenants' net income, has undergone little change in the past ten years. This is due not least to the good economic development of the Eastern German states, where almost 75% of our residential units are located. Besides, our acquisitions were very rarely targeted at major cities which feature, besides rising rents, excessively high purchase prices. TAG has always focused on residential portfolios in cities with higher vacancy rates, which we gradually develop over the years and whose appeal for tenants we systematically enhance. For example, the average net rent of our residential units at the end of 2019 is still only EUR 5.39 per square meter. We believe that our strategy of offering broad sections of the population a portfolio development in line with the market at appropriate rents will continue to be successful in the years ahead, given that it allows for sustainable growth in rents that is at the same time affordable for the tenant.

Although TAG's current business model forms a solid basis for the future, last November we decided to take a strategic step by entering the Polish residential-for-rent market. This was achieved by acquiring 100% of the shares in Vantage Development S.A., a property developer based in Wrocław that has been successful for several years and at the time of purchase already had a secured pipeline of around 5,400 units. The growing Polish residential real estate market is the target of a regional expansion of our business model; we see it as a very attractive addition to our existing business activities in Germany, because the Polish housing rental market is characterised by supply deficit and is considered one of the least saturated housing markets in Europe. The absolute size of this market, with a population approaching 40 million, coupled with good underlying economic conditions and favourable demographic trends, supports the growth opportunities we see. Our medium-term goal, i.e. within the next three to five years, is to build up a portfolio of around 8,000 to 10,000 residential units there. Starting in the 2020 financial year, our activities in Poland will be included in TAG's IFRS consolidated financial statements. From 2021, we will generate our first rental income in Poland from the construction projects that will have been completed by then.

But let's take a look back at the 2019 financial year, which can be described as a very successful year. With funds from operations (FFO) of EUR 160.6m, we not only exceeded our forecast, which was for FFO between EUR 154m and EUR 156m, we also achieved another significant year-on-year increase of 10%. Net asset value (NAV) also saw strong growth of 18% in 2019. Taking the dividend paid out last year into account, NAV growth actually reached 22%. The loan-to-value (LTV) debt ratio was further reduced in the past financial year and stood at 44.8% at 31 December 2019, even after payment of the purchase price for our acquisition in Poland.

On the operations side, 2019 was very positive. Vacancy in our residential units was reduced to just 4.5% by year-end. Total rental growth of our portfolio on a like-for-like basis amounted to 2.4% in 2019, of which 0.5 percentage points are attributable to the further reduction in vacancy. More than 1,300 residential units were acquired at attractive prices in our core regions in Eastern Germany, so that we also continued our growth in Germany in 2019.

Vorstand der TAG: Martin Thiel, Claudia Hoyer, Dr. Harboe Vaagt

As a result of all this, we are able to propose to you, our shareholders, a dividend of EUR 0.82 per share, 10% higher than in the previous year. We would like to thank you for the trust you have placed in us again in the past year and look forward to the future of our shared business, which now includes promising growth opportunities in Poland in addition to a well-positioned German business where our employees again did an excellent job in 2019. Everything else about the 2019 financial year and our plans for the future can be found on the following pages of this Annual Report.

Kind regards,

Claudia Hoyer	**Martin Thiel**	**Dr. Harboe Vaagt**
COO	**CFO**	**CLO**

BOARD REPORT

SUPERVISORY BOARD REPORT

Dear Shareholders,
Ladies and Gentlemen,

In a further successful year in which it again improved its operating and financial performance, TAG Immobilien AG (TAG) broadened its regional focus, entering the Polish residential real estate market with the acquisition agreed in November 2019 of Vantage Development S.A., a Polish project developer based in Wroclaw. TAG sees good opportunities for generating attractive returns by constructing new residential property in selected Polish cities close to the German border in the increasingly growing local residential rental market. The Supervisory Board deliberated at length on this regional expansion during the year under review and supports it.

In addition, the acquisition of 1,331 residential units last year resulted in an increase in the German residential real estate portfolio to around 85,000 units. The encouraging increase in the share price from EUR 19.91 on 31 December 2018 to EUR 22.16 on 31 December 2019 together with the successful placement of a borrower's note loan for EUR 102 million in June 2019 testifies to the confidence that the capital market continues to place in TAG.

The Supervisory Board wishes to thank all shareholders and investors for their support in TAG in financial year 2019.

Collaboration with the Management Board and monitoring of the Company's management

In 2019, the Supervisory Board fulfilled the duties required of it by law, the articles of association, the German Corporate Governance Code (DCGK) and the rules of procedure with great diligence. It regularly advised the Management Board in the discharge of its duties and monitored its activities. It was also directly involved at an early stage in all decisions of fundamental importance for the Company. In accordance with Section 90 Paragraph 1 and Paragraph 2 of the German Stock Corporation Act, the Management Board provided regular, updated and comprehensive information on all matters of relevance for corporate planning, strategy development, and in particular the acquisitions and sales completed in 2019. As in previous years, the Management Board's reports covered the financial position and profitability of TAG and the Group's companies, its business progress, the risk situation and risk management and compliance. The reports were submitted in writing and orally. The Management Board was in regular contact with the Chairman of the Supervisory Board to consult on major business matters. Significant events were immediately brought to its attention.

Composition and organisation of the Supervisory Board

The Chairman of the Supervisory Board is Mr Rolf Elgeti. Mr Lothar Lanz is his deputy. Only Mr Elgeti is a former member of the Company's Management Board, having served on it until 31 October 2014. The Supervisory Board believes that all members meet the requirement of independence as defined in Section 5.4.2 of the DCGK. The members of the Supervisory Board possess the knowledge, skills and professional experience required for the proper exercise of their duties. As the respective areas of expertise held by individual members are mutually complementary, the Supervisory Board in its entirety and diversity is in a position to comprehensively fulfil its tasks. The Supervisory Board assumes that the performance of its supervisory and advisory functions is ensured in accordance with the articles of association, the DCGK and the rules of procedure. The Supervisory Board regularly conducts efficiency audits, which are carried out by means of a written survey of its members.

In order to perform its duties efficiently, the Supervisory Board has formed committees. Specifically, there were two committees during the year:

- Audit Committee
- Personnel Committee

The Audit Committee preliminarily reviews the documents for the year-end financial statements and the consolidated financial statements and prepares the adoption and approval of these documents and of the Management Board's proposal for the appropriation of net profit. The Committee discusses with the Management Board the principles of compliance, risk assessment, risk management and the adequacy of the internal control system. The Audit Committee's duties also include preparing the election of the external auditor by the shareholders at the Annual General Meeting and reviewing the required independence. The members of the Audit Committee possess accounting and auditing expertise. Mr Lanz, as Chairman of the Audit Committee, meets the requirements of Section 100 Paragraph 5 of the German Stock Corporation Act.

The Personnel Committee, which also serves as a Nominating Committee, is responsible for all personnel matters relating to the Supervisory Board and Management Board, the conclusion and content of management contracts and related matters including management compensation. In addition, the Personnel Committee proposes suitable candidates for the Supervisory Board for its election proposals at the Annual General Meeting and prepares the annual determination of the performance-related variable remuneration of the members of the Management Board.

The composition of the Supervisory Board and its committees is as follows:

	Supervisory Board	Audit Committee	Personnel Committee
Rolf Elgeti	Chairman	Member	Chairman
Lothar Lanz	Deputy Chairman	Chairman	Member
Prof. Dr. Kristin Wellner	Member	–	–
Dr. Philipp K. Wagner	Member	–	Member
Harald Kintzel	Member	Member	–
Marco Schellenberg	Member	–	–

Meetings of the Supervisory Board

At a total of four meetings, the Supervisory Board was informed of the progress of the Group's business and discussed subjects and items requiring its approval together with the Management Board. In urgent matters, resolutions were also adopted outside these sessions by written ballot or in conference calls. The following table shows the attendance record of the Supervisory Board members in the financial year under review:

Meeting attendance by Supervisory Board members in 2019	05 Mar	06 May	05 Sep	13 Dec
Rolf Elgeti	×	×	×	×
Lothar Lanz	×	×	×	×
Prof. Dr. Kristin Wellner (ab 23.05.2018)	×	×	×	×
Dr. Philipp K. Wagner	×	×	×	×
Harald Kintzel	×	×	×	×
Marco Schellenberg	×	×	×	×

At the meeting on 5 March 2019 to approve the financial statements, the Supervisory Board dealt in detail with the annual financial statements and the consolidated financial statements for 2018 and the results of the external audit. The auditor's representatives attended the meeting in person to report on the outcome of the audit. The financial statements were discussed at length with the auditor. At this meeting, the Supervisory Board also dealt with TAG's non-financial declaration ("Sustainability Report") for 2019 pursuant to Sections 289b et seq. and 315b et seq. of the German Commercial Code (HGB), which is increasingly growing in importance and was the subject of further consultations between the Management Board and the Supervisory Board in the year under review. The Supervisory Board also adopted the items of the agenda for resolution at the Annual General Meeting.

The meeting on 6 May 2019 concentrated on preparations for the Annual General Meeting on 7 May 2019 as well as a basic discussion on entry into the Polish real estate market.

Salzgitter-Fredenberg (Niedersachsen)

The main items on the agenda of the meeting of 5 September 2019 were again the entry into the Polish real estate market as well as the acquisition of a real estate portfolio located in Eastern Germany. In addition, a report was heard on the revisions to the German Corporate Governance Code necessitated by the Act on the Transposition of the Second Shareholder Rights Directive.

At the meeting on 13 December 2019, the Management Board presented the budget for the years 2020 to 2022 to the Supervisory Board, which the Supervisory Board subsequently approved. In addition, the Supervisory Board deliberated on the acquisition of Vantage Development S.A. and other acquisitions. The Supervisory Board adopted the declaration of conformity for 2019 together with the Management Board at this meeting.

In addition to the aforementioned meetings of the Supervisory Board, a further two meetings were held in the form of telephone conferences and further resolutions were passed by written circulation. Among other things, these concerned the acquisition of residential real estate portfolios in Germany, the placement of a borrower's note loan and the planned acquisition in Poland.

Work of the Audit Committee

During the year under review, the Audit Committee held three meetings in which it dealt with the relevant aspects of the Supervisory Board's activities. Representatives of the auditor attended parts of all of the meetings and reported in this connection on the voluntary review of the interim financial statements as at 30 June 2019. In 2019, the focus of the consultations was again on various aspects of the audit, specifically the audit of the accounting-related internal control system and the valuation of the property portfolio. The Audit Committee recommended that the Supervisory Board propose KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2019 financial year at the Annual General Meeting on 7 May 2019. In addition, the Chairman of the Audit Committee consulted directly with the auditor and was informed in detail of the process and main aspects of the audit.

External auditor for the 2019 financial year

The Supervisory Board engaged KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, which had been elected by the shareholders at the Annual General Meeting on 7 May 2019, to audit the annual financial statements and the consolidated financial statements of TAG Immobilien AG for the year ending 31 December 2019, in accordance with the recommendations of the DCGK.

As stipulated by Section 7.2.1 of the DCGK, the auditors submitted their declaration of independence, to which no objections were raised. The requirements specified in Section 7.2.3 of the DCGK with respect to the relations between the Company and the auditors were duly observed.

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, had audited the annual financial statements and the consolidated financial statements of TAG Immobilien AG for 2012 for the first time. Up until and including the audit of the annual financial statements for 2017, the principal auditor had been Mr Niels Madsen WP/StB. Since 2018, Mr Rainer Thiede WP/StB has performed the engagement as the principal auditor and, together with Mr Achim Bagehorn WP/StB, signed the audit opinion for the annual financial statements and the consolidated financial statements for the year ending 31 December 2019.

Approval of the annual financial statements and the consolidated financial statements

KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements and the combined management report prepared in accordance with German commercial law, as well as the consolidated financial statements, including the combined management report for 2019, which were prepared in accordance with the International Financial Reporting Standards (IFRS). An unqualified audit opinion was provided in both cases.

The financial statements and audit reports were circulated to all members of the Supervisory Board in a timely manner and discussed in detail at the Supervisory Board Meeting on 25 February 2020, after the Audit Committee had already dealt with the results in detail and discussed them with the external auditor prior to this meeting, and during the audit process. Representatives of the auditor also attended the meeting of 25 February 2020, during which they elaborated on their report and were available to answer any questions of the Supervisory Board. The auditor additionally confirmed that the risk early detection system which had been installed by management was suitable for detecting in good time any developments liable to jeopardise the Company's going-concern status.

The Supervisory Board accepted the external auditor's results and, on the basis of its own review of the annual financial statements and the consolidated financial statements together with the combined management reports, did not raise any objections. The Supervisory Board endorses the Management Board's proposal for the appropriation of net profit for the distribution of a dividend of EUR 0.82 per share. Accordingly, the annual financial statements and the consolidated financial statements prepared by the Management Board were duly approved and accepted by the Supervisory Board.

Corporate governance

As in previous years, the Supervisory Board, and especially the Audit Committee, closely monitor management's compliance with the principles of good corporate governance. There were no conflict of interests.

The Company does not currently fulfil the recommendation enshrined in the German Corporate Governance Code to appoint a spokesman or chairman of the Management Board. The Supervisory Board believes that the tasks of the Management Board, which was reduced in size on 1 November 2014, are allocated in a sufficiently detailed and appropriate way in the rules of procedure and business allocation plan and that TAG is represented appropriately in relations with third parties. For these reasons, there are no plans to appoint a speaker or chairman at any time in the future.

In the 2019 financial year, the Company's declaration of conformity was approved at the meeting of the Supervisory Board held in December. Apart from the exception stated above, the Company follows all the recommendations of the German Corporate Governance Code in full. Please also refer to the Corporate Governance Report for 2019.

Vote of thanks to the staff

The Supervisory Board would like to commend and thank all employees of the TAG Group, whose strong commitment and dedication in the reporting year made the Group's favourable business performance and continued growth possible in the first place, as well as the Management Board, for their good work.

Hamburg, February 2020

The Supervisory Board

Rolf Elgeti
Chairman

GOVERNANCE

CORPORATE GOVERNANCE REPORT

Corporate governance comprises the principles of a company's management and generally refers to the existing regulatory framework for managing and supervising a business. In particular, it refers to the responsible management and supervision of companies with a view to long-term value creation. The Supervisory Board and the Management Board of TAG Immobilien AG (TAG) see it as a key prerequisite for sustainable business success because it strengthens the confidence that shareholders, employees, business partners and the public place in the Company's leadership and management. Respect for the interests of shareholders and employees, transparency and responsibility when making business decisions, and the appropriate response to risks are therefore key elements of corporate governance at TAG and form the basis for the actions of the Supervisory Board, Management Board and employees of TAG.

In accordance with Section 3.10 of the German Corporate Governance Code (the "DCGK"), the Management Board and the Supervisory Board issue the following report for the TAG Group, which also includes the Remuneration Report published within the Combined Management Report for 2019. The corporate governance declaration in accordance with Section 289a of the German Commercial Code can be found on TAG's web site at www.tag-ag.com/en/investor-relations/ in the 'Corporate Governance' section.

Conformity to the recommendations of the German Corporate Governance Code

In implementing corporate governance, the Management Board and Supervisory Board are guided by the DCGK (version dated: 7 February 2017). Section 161 of the German Stock Corporation Act stipulates that the Management Board and Supervisory Board must declare annually the extent to which the recommendations of the DCGK were conformed to and which recommendations, if any, will continue not to be applied in the future. In December 2019, the Supervisory Board and Management Board reviewed and jointly adopted the declaration of conformity for 2019.

TAG deviates from one recommendation of the Code as it does not follow the recommendation of Section 4.2.1 to appoint a Management Board spokesman or chairman. For the reasoning behind this deviation, please refer to the declaration of conformity published below and the Supervisory Board report for 2019.

Declaration of conformity of the Management Board and the Supervisory Board pursuant to Section 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board of TAG Immobilien AG (the "Company") declare that they have been and are in conformity to the recommendations on corporate governance drafted by the Government Commission on the german corporate Governance Code ("DCGK") in the version dated 7 February 2017 (published on 24 April 2017), issued by the German Federal Ministry of Justice and published in the official part of the Bundesanzeiger and in the future they will continue to conform save for the following exception:

Given an earlier reduction in the size of the Management Board to just three members, the Company's Management Board has had no spokesman or Chairman since 1 November 2014. Accordingly, the recommendation in Section 4.2.1 Sentence 1 of the DCGK is not followed in this regard. The Supervisory Board and the Management Board believe that the tasks of the Management Board are allocated in a sufficiently detailed and appropriate way in the rules of procedure and business allocation plan and that TAG is represented appropriately in relations with third parties.

Hamburg, December 2019

Management Board and Supervisory Board
of TAG Immobilien AG

Diversity and composition of the Supervisory Board

Section 5.4.1 of the DCGK requires the Supervisory Board to set specific targets for its composition. Taking into account the Company's specific situation, these targets should reflect its business activity, consider potential conflicts of interest, set an age limit for the members of the Supervisory Board and promote diversity. The Supervisory Board has specified its objectives and criteria regarding its composition as follows:

- Each member of the Supervisory Board should possess the knowledge, skills and professional experience required for the proper exercise of their duties and should be sufficiently independent. Each member of the Supervisory Board ensures that they have enough time to fulfil the duties of their mandate. Members of the Supervisory Board should not hold office longer than until the end of the Annual General Meeting that follows their 75th birthday.

- Each member of the Supervisory Board who also sits on the Management Board of another listed Company may not accept more than a total of five Supervisory Board positions at listed companies that are not part of the Group of whose Management Board they are a member.

- No more than two former members of the Company's Management Board may sit on the Supervisory Board. The Supervisory Board should have at least two members who it considers to be independent. In particular, a member of the Supervisory Board is not considered to be independent if they are in a personal or business relationship with the Company, its corporate governance bodies or a controlling shareholder or a Company affiliated with the latter that may constitute a significant and not merely temporary conflict of interest.

- Members of the Management Board may not sit on the Company's Supervisory Board until two years have passed since the end of their Management Board term, unless shareholders who hold more than 25% of the voting rights in the Company propose their appointment. In such a case, the move to the Supervisory Board should be an exception and the reasons submitted to the shareholders at the Annual General Meeting.

- The Supervisory Board has set an age limit of 67 years for the Management Board.

Overall, the members of the Supervisory Board are expected to possess specialist knowledge and experience in the German real estate market, the capital market and other business activities pursued in the TAG Group besides the already presupposed knowledge, skills and professional qualities as well as the accounting and auditing skills stipulated in Section 100 Paragraph 5 of the German Stock Corporation Act.

In addition, the Supervisory Board has specified a "competence profile" relevant to its composition and will take the following skills into account in the composition and selection of future candidates as follows:

Financial competence	Real estate competence	Supervisory competence
Accounting	Professional qualification	Industry experience
Financial indicators	Industry/product expertise	Risk management
Liquidity planning	M&A experience	Compliance
Auditing	Strategic management	Corporate Governance

At this time, the members of the Supervisory Board fulfil these criteria and also cover these competences. As the Supervisory Board believes that its members are "independent" within the meaning of Section 5.4.2. DCGK, it is not necessary to mention the independent members by name as stipulated in Section 5.4.1.

Regardless of the statutory requirement that came into force in 2015 to strengthen the proportion of women in leadership positions, care had already been taken to ensure an equitable representation of women in the entire Group in the past few years. The Supervisory Board has defined a minimum quota of 30% for the Management Board, which has been met for many years. The Supervisory Board has striven and continues to strive to increase the proportion of women on the Supervisory Board, but is retaining the gender quota of 0% agreed at its meeting on 3 September 2015, in order not to restrict the discretionary scope in the selection of candidates with regard to the aforementioned prerequisites and competencies and in order not to prejudice the election of shareholder representatives in the future. Following the Supervisory Board elections carried out in May 2018, the proportion of women on the Supervisory Board in relation to shareholder representatives was 25%, and 17% in relation to the entire Supervisory Board.

Overall, the gender ratio at TAG can be considered balanced. In the first and second management tiers of the Group, for which the Management Board has stipulated a quota of at least 40%, the proportion of women is around 48%, and in the Group as a whole it is around 70% as of 31 December 2019.

Disclosure of conflicts of interest

Good corporate governance includes the disclosure and transparency of any business transactions liable to create conflicts of interest. There were no conflicts of interest between the Company and the members of the Supervisory Board or the Management Board, e.g. through the assumption of advisory or executive functions for third parties or business partners, in the year under review. There were also no business relationships between the members of the Supervisory Board or the Management Board or related parties or companies and TAG or its subsidiaries during the reporting period.

Reportable directors' dealings and shareholdings

On the reporting dates for past two years, the following shares were held by Board members:

	31 December 2019			31 December 2018		
Shareholders	Shares (direct)	Shares (remuneration program)	Total	Shares (direct)	Shares (remuneration program)	Total
Rolf Elgeti	20,000	0	20,000	20,000	0	20,000
Lothar Lanz	1,400	0	1,400	5,000	0	5,000
Dr Philipp K. Wagner	0	0	0	0	0	0
Prof Dr Kristin Wellner (from 23 May 2018)	0	0	0	0	0	0
Harald Kintzel	200	0	200	0	0	0
Marco Schellenberg	470	0	470	0	0	0
Total Supervisory Board	**22,070**	0	**22,070**	**25,000**	0	**25,000**
Claudia Hoyer	9,000	18,702	27,702	9,000	18,702	27,702
Martin Thiel	17,298	18,702	36,000	17,298	18,702	36,000
Dr Harboe Vaagt	15,085	18,702	33,787	15,085	18,702	33,787
Total Management Board	**41,383**	**56,106**	**97,489**	**41,383**	56,106	**97,489**
Sum total	**63,453**	**56,106**	**119,559**	**65,383**	56,106	**122,489**

The three members of the Management Board were not allocated any TAG shares as components of their variable long-term incentive plan for 2019. This will be done at the beginning of 2021 for the three-year period from 2018 to 2020.

Remuneration of the Supervisory Board

The remuneration paid to members of the Supervisory Board was set in accordance with a resolution passed at the Annual General Meeting of 26 August 2011. Since then, members have received fixed compensation of EUR 20,000.00 for each full year of their membership of the Supervisory Board, plus premiums for appropriate D & O insurance. The Deputy Chairman of the Supervisory Board receives 1.5 times this basic fixed fee, and the Chairman of the Supervisory Board receives a fixed fee of EUR 175,000.00 for each financial year. No variable remuneration based on the Company's business performance is granted. In the Company's opinion, a purely function-related remuneration of the Supervisory Board does better justice to its monitoring tasks.

In addition, members of the Audit Committee receive separate compensation: the Chairman receives EUR 75,000.00 and the members EUR 5,000.00 each. The members of the Personnel Committee receive an attendance fee of EUR 500.00 per meeting, unless the fee is waived as in the past. In all, the following remuneration (net of VAT and reimbursements for travel expenses) was provided for 2019:

Supervisory Board members in TEUR	2019	2018
Herr Rolf Elgeti	175	175
Herr Lothar Lanz	105	105
Herr Dr Philipp K. Wagner	20	20
Frau Prof Dr Kristin Wellner (from 23 May 2018)	20	12
Herr Dr Hans-Jürgen Ahlbrecht (until 22 May 2018)	0	10
Herr Harald Kintzel	25	23
Herr Marco Schellenberg	20	20
Total	**365**	**365**

Remuneration of the Management Board

The members of the TAG Management Board receive a fixed base remuneration in cash and a performance-related variable component, which is paid out partly in cash and partly in the form of TAG shares. The performance-related remuneration of Management Board members is based on the provisions of Section 87 paragraph 1 sentence 3 of the German Stock Corporation Act and the DCGK and has consisted since 2018 of a short-term incentive plan (STIP) and a long-term incentive plan (LTIP). The STIP is based on the performance of financial performance indicators and is intended to be paid out in cash immediately. The LTIP is based on the total shareholder return (as the sum of the share price increase and dividends paid) over a three-year period and is paid exclusively in TAG shares, which are only transferred to the Management Board after a vesting period of three years. This regulation ensures that the variable remuneration and its amount is also tied to the Company's long-term and sustainable performance.

Gatersleben (Saxony-Anhalt)

Remuneration accruing to the Management Board in the year under review (incentives granted) came to TEUR 1,809 (previous year: TEUR 1,861). The amounts paid to the members of the Management Board in the year under review, which partially also include remuneration earned in earlier years, stand at TEUR 2,070 (previous year: TEUR 2,132).

Further details about the remuneration paid to the members of the Supervisory Board and Management Board for 2019 are presented in the remuneration report within the Combined Management Report for 2019.

Compliance

The term 'Compliance' refers to the observance of and compliance with the laws that apply for TAG's business activities, the recommendations of the German Corporate Governance Code and the Company's own internal policies and instructions. Internal policies and instructions are part of TAG's compliance management system, which is regularly reviewed and updated. From 2018, it also includes the option for employees to report legal violations in the Company using a protected communication channel.

Compliance is part of TAG's internal system of controls alongside risk management and the Internal Audit department. The Management Board regularly reports to the Supervisory Board regarding the risk situation, risk management and risk controlling as well as compliance. The Compliance Officer and the Internal Audit department report directly to the Management Board. The continual updating and improvement of overall compliance and risk management as well as conformity to the DCGK remains an ongoing task for management.

EPRA

EPRA REPORTING

TAG Immobilien AG has been a member of EPRA (European Public Real Estate Association) since 2001, a non-profit organisation representing listed European real estate companies. EPRA regularly publishes best practice recommendations for financial reporting and for calculating certain performance indicators. Although TAG's internal management process is not currently based on EPRA figures with the exception of EPRA NAV, we are publishing below the figures and calculations prepared in accordance with the latest EPRA best practice recommendations (http://www.epra.com/finance/financial-reporting/guidelines). In doing so, TAG is supporting EPRA's initiative for uniform accounting and improved comparability of real estate companies' financials.

EPRA EARNINGS

EPRA earnings are used to measure operating earnings from the letting of real estate. EPRA Earnings per share are calculated on the basis of the number of outstanding shares.

in EUR m	2019	2018
Net income	**456.4**	**488.2**
Fair value changes in investment properties and valuation of properties held as inventory	-414.1	-430.0
Deferred income taxes	76.7	72.7
Deferred income taxes on valuation result	0.4	0.1
Cash taxes on net revenues from sales	2.0	0.0
Bewertungsergebnis derivative Finanzinstrumente	29.5	31.0
Deferred income taxes	-9.2	-9.8
Breakage fees from the early repayment of bank loans	0.2	9.8
Cash dividend payments to minorities	-1.3	-1.3
EPRA Earnings	**140.6**	**160.8**
Deferred income taxes (other than on valuation result)	16.3	-12.9
Other non-cash financial results	2.2	0.6
Non-recurring effects (Provisions for property transfer tax risks)	-1.3	-6.2
Depreciation/amortisation	6.8	4.3
Cash taxes on net revenues from sales	-2.0	0.0
Elimination of effects from the first-time application of IFRS 16 (Leases")	-2.0	0.0
Adjusted EPRA Earnings (FFO I)	**160.6**	**146.5**
Weighted average number of shares (outstanding)	146,333	146,341
EPRA Earnings per share in EUR	**0.96**	**1.10**
Adjusted EPRA Earnings (FFO I) per share in EUR	**1.10**	**1.00**
Interest expense convertible bond	1.6	1.6
EPRA Earnings, diluted*	**142.2**	**162.4**
Weighted average number of shares in TEUR, diluted	161,151	161,016
EPRA Earnings per share in EUR, diluted*	**0.88**	**1.01**

*From 2018: including the effects of the potential conversion of the 2017/2022 convertible bond and the potential shares used for Management Board remuneration.

As is the case with funds from operations (FFO I), which are reported here as 'adjusted EPRA Earnings', net gains and losses from changes in fair value and profits and losses from sales are eliminated from IFRS consolidated earnings. In contrast to the calculation of FFO I, not all deferred income taxes are eliminated from EPRA Earnings. This means, for example, that the utilisation and impairment of deferred income taxes recognised on unused tax losses are deducted in full from EPRA Earnings despite their non-cash nature, but are eliminated from FFO I. Non-recurring effects such as project costs, depreciation and amortisation are deducted from EPRA Earnings whilst eliminated from FFO I.

EPRA NAV

EPRA NAV represents the company's net asset value after the recognition of real estate at its fair value. Certain items which are unlikely to be realised given the long-term nature of the holding are eliminated from EPRA NAV. EPRA NAV per share is calculated on the basis of the number of shares outstanding on the reporting date.

in EUR m	12/31/2019	12/31/2018
Consolidated equity (before non-controlling interests)	**2,342.6**	**2,006.5**
Deferred income taxes on investment properties and derivative financial instruments	492.8	425.2
Fair value of derivative financial instruments	71.5	42.0
Difference between fair value and book value for properties valued at cost	85.2	60.0
EPRA NAV	**2,992.1**	**2,533.6**
Number of shares (outstanding)	146,337	146,322
EPRA NAV per share in EUR	**20.45**	**17.32**
Effect from conversion of convertible bond	258.9	257.5
EPRA NAV diluted*	**3,250.9**	**2,791.1**
Number of shares in TEUR. diluted	161,191	161,023
EPRA NAV per share in EUR. diluted*	**20.17**	**17.33**

*From 2018, including the effects of the potential conversion of the 2017/2022 convertible bond and the potential shares used for Management Board remuneration.

EPRA NNNAV

EPRA NNNAV is based on EPRA NAV and also takes account of financial liabilities including derivative financial instruments and the related deferred income taxes at their fair value, which is estimated for this purpose.

in EUR m	12/31/2019	12/31/2018
EPRA NAV diluted	**3,250.9**	**2,791.1**
Fair value of derivative financial instruments	-6.2	-5.1
Deferred income taxes	-492.8	-437.1
Difference between the fair value and book value of financial liabilities	-79.7	-37.8
Deferred income taxes	25.7	12.2
EPRA NNNAV diluted	**2,697.9**	**2,323.3**
Number of shares in TEUR. diluted*	161,191	161,023
EPRA NNNAV per share in EUR diluted*	**16.74**	**14.43**

*From 2018, including the effects of the potential conversion of the 2017/2022 convertible bond and the potential shares used for Management Board remuneration.

EPRA NET INITIAL YIELD

EPRA net initial yield is the ratio between the annualised annual net rental income less non-rechargeable ancillary costs and the fair value of the entire real estate holdings, including the transaction costs deducted from the valuation of the fair value of the real estate assets. As TAG is a lessor of residential real estate, EPRA net initial yield also equals the 'topped-up' EPRA net initial yield, as rent-free periods play only a very minor role in this business model.

in EUR m	12/31/2019	12/31/2018
Annualised net annual rental income on the reporting date	319.9	314.1
Non-rechargeable ancillary expenses	-10.3	-9.8
Rental income after non-rechargeable ancillary expenses	**309.6**	**304.3**
Adjustments for rental incentives (rent-free periods)	0.0	0.0
Rent after non-allocable utility costs and rental incentives	**309.6**	**304.3**
Market value of total real estate assets	5,302.4	4,815.5
Transaction costs deducted (acquisition costs)	441.4	399.7
Market value of total real estate assets (gross)	**5,743.8**	**5,215.2**
EPRA Net Initial Yield in %	**5.4%**	**5.8%**
EPRA 'topped up' Net Initial Yield in %	**5.4%**	**5.8%**

EPRA VACANCY RATE

The EPRA vacancy rate is the ratio between the net rental income of the vacant units as of the reporting date and the current net rental income on the entire portfolio. Vacancies arising from protracted project development activities are excluded from the calculation of the EPRA Vacancy Rate.

in EUR m	12/31/2019	12/31/2018
Estimated rental income in December	28.2	27.0
Estimated rental income lost as a result of vacancies in December	1.5	1.3
EPRA Vacancy Rate in %	**5.3%**	**4.8%**

EPRA COST RATIO

The EPRA cost ratios measure the ratio between rental and administration expenses (with and without vacancy costs allowing for any opposing operating income and eliminating non-recurring effects) and total rental income for the year in question. This is a key metric to enable meaningful measurement of the changes in a company's operating costs.

in EUR m	2019	2018
Rental expenses (non-rechargeable)	51.5	52.0
Impairments	3.9	4.1
Net income from property services	-21.0	-17.7
Other operating income	-5.6	-9.6
Personnel expenses	50.3	43.7
Non-recurring effects	17.9	17.1
Non-recurring effects (Provisions for property transfer tax risks)	1.3	6.2
EPRA costs incl. vacancy costs	**98.3**	**95.8**
Vacancy costs	-7.9	-7.8
EPRA costs excl. vacancy costs	**90.4**	**88.0**
Rental income (net rent)	315.0	302.2
EPRA costs ratio incl. vacancy costs in %	**31.2%**	**31.7%**
EPRA costs ratio excl. vacancy costs in %	**28.7%**	**29.1%**

MANAGE MENT REPORT

COMBINED MANAGEMENT REPORT 2019

FOUNDATIONS OF THE GROUP

Overview and corporate strategy

TAG Immobilien AG ('TAG' in the following) is a Hamburg-based property company focused on the German residential real estate sector. The properties owned by TAG Immobilien AG and its subsidiaries (also abbreviated as 'TAG' or the 'Group' in the following) are located in various regions of Northern and Eastern Germany and North Rhine-Westphalia, and, starting in the 2020 financial year, in Poland as well. Overall, at 31 December 2019 TAG managed around 84,500 residential units (previous year: around 84,400).

TAG Immobilien AG shares are listed in the MDAX of the Frankfurt Stock Exchange; TAG's market capitalisation at 31 December 2019 was EUR 3.2bn (previous year: EUR 2.9bn).

TAG's business model is the long-term letting of flats. All functions essential to property management are carried out by its own employees. In many inventories, the Company also delivers caretaker services and – increasingly – repair craftsman services. It specialises in inexpensive housing that appeals to broad sections of the population. The Group's own multimedia company supports the provision of multimedia to tenants and expands the range of property management services offered. Energy management is pooled in a subsidiary through which the Group supplies commercial heating to its own portfolio with the aim of optimising energy management. In the medium term, these services are to be further expanded and supplemented with new services for tenants.

TAG invests primarily in medium-size towns and in the vicinity of large metropolises, where we see not only potential for growth, but in particular better opportunities for returns in comparison with investments in the big cities. The newly acquired portfolios usually have higher vacancies, which are then reduced following the acquisition, through targeted investments and proven asset-management concepts. Investments in Germany are made nearly exclusively in regions already where TAG already manages assets, to be able to use existing administrative structures. Also, local knowledge of the market is essential in the acquisition of new portfolios here.

In addition to long-term property management, the Group selectively exploits sales opportunities in order to reinvest the realised capital appreciation and liquidity into new portfolios with higher yields. This strategy of 'capital recycling' is TAG's response to the intense competition for German residential real estate, and puts a focus on returns per share. Growth in absolute orders of magnitude is no longer at the forefront of the corporate strategy. Instead, the aim is to offer tenants affordable housing through sustained and active portfolio management, and investors growing cash flow through attractive dividends.

On 8 November 2019, TAG signed a contract for the acquisition of all shares in Vantage Development S.A. ('Vantage'). Vantage is a real estate developer whose headquarters and main activities are located in Wroclaw in the western part of Poland. At that time, Vantage's secured project pipeline consisted of several residential projects with a total of approximately 5,300 units. Of these, the Management Board of TAG expects that up to around 3,400 units will be held long-term as investment properties after their completion to form the core of TAG's future rental business in Poland, while the rest of the development pipeline is expected to be sold by 2021.

The growing Polish residential real estate market is the target of a regional expansion of TAG's business model, which will focus on strong cash returns (i.e. FFO returns in relation to the equity invested). The Polish rental housing market is characterised by a supply shortage. It is considered one of the least saturated housing markets in Europe, with an housing shortage that already exceeds 3.5m units. Furthermore, the absolute size of the Polish market (approx. 38 million inhabitants, sixth-largest EU country in terms of population), coupled with a growing services sector and favourable demographic trends ('Generation rent' – a growing preference for rented apartments) supports TAG's market entry in Poland. The Management Board expects that early market entry will give TAG a competitive advantage in terms of scope, market knowledge, market penetration, and market position.

TAG's medium-term growth target, i.e. for the next three to five years, is to build up a portfolio of around 8,000-10,000 residential units in Poland. Capital spending will focus on development projects and new buildings in large cities with favourable population trends, proximity to universities, and a well-developed infrastructure.

Group structure and organisation

TAG Immobilien AG heads an integrated real estate group. It essentially performs the functions of a management holding company and, in this capacity, performs Group-wide tasks for the entire group of companies. Central departments such as Finance, Accounting, Tax, Controlling, Human Resources, IT, Procurement and Law are located directly at TAG Immobilien AG.
At Management Board level, responsibilities are distributed as follows:

- COO: Real Estate Management, Acquisitions and Sales, Strategic Property Management/Marketing, Shared Service Centre, Facility Management services, Trades services, Central Purchasing, Change Management, Business Apartments, Energy residential services, Multimedia for the properties, Business Development, Environmental Social Governance (ESG), and Digitalisation
- CFO: Group Accounting, Financing and Treasury, Taxes, Controlling, Investor and Public Relations, ERP/Data Management
- CLO: Human Resources, Legal, Judicial rent collection, IT, Compliance, Internal Audit, Residential Real Estate Management

The Group consists of additional subgroups, operating subsidiaries and property companies, each of which own real estate inventories and are included in TAG's consolidated statements. At 31 December 2019, the Group consisted of 77 (previous year: 76) fully consolidated companies. A complete overview of all companies in the Group is shown in the Notes to the consolidated financial statements.

The organisational structure of TAG's operative business is decentralised, has flat hierarchies, and short decision-making paths. This organisation centres on the 'LIM' structure (Leiter/in Immobilienmanagement – Head of Real Estate Management). Each LIM is assigned a regionally delimited property portfolio, which is managed in a decentralised way and largely autonomously within the approved budget. In sum, the regions correspond to the 'Rental' segment presented in the segment reporting.
Key areas of decentralised responsibility include direct customer care and tenant satisfaction, letting, technical support for residential units with regard to maintenance measures and investments in the modernisation of apartments and buildings, as well as receivables management.

The LIMs report directly to the Management Board (specifically the COO). The LIMs meet regularly to network, exchange ideas and ensure a consistent implementation of the centrally set corporate strategy and of the Management Board's decisions.

The central functions of the operating business primarily concern the overarching development of portfolio, location, and management concepts and standards, with the aim of ensuring uniform quality and more service for tenants, efficiently and sustainably. In addition, functions such as Purchasing/Sales, Facility Management Services, Purchasing and Shared Service Centres are centrally organised. Bundling these functions reduces the workload of operational management and guarantees independence from third-party service providers. Beyond this, the central Strategic Property Management and Central Purchasing departments standardise processes, negotiate nationwide framework agreements, and review products and services across the Group.

Management system

To monitor and steer its business activities, TAG uses a management system that is constantly updated. The management system is based on operating figures determined at regional level and on financial indicators at Group level. The CFO is responsible for the management and ongoing monitoring of these key figures at the Management Board level.

Operative indicators

The two key operative indicators that are determined and reported to the Management Board are:

- Development of rental income
  In order to assess the rental income performance, the development of rental income over time is calculated in absolute terms and on a like-for-like basis (i.e. not including properties acquired and sold during the previous twelve months), along with the net actual rent and new letting rent per square metre. In like-for-like rental growth, there continues to be a distinction between like-for-like rental growth with and without the effects of vacancy reduction. The development of the indicators provides information on where we stand on attaining our rental growth targets. For corporate controlling, like-for-like rental growth including the effects of vacancy reduction is the key performance indicator used to assess the development of rental income over time.

- Development of Vacancy
  Vacancy is calculated as the ratio of unlet square metres to the total square metres of residential or commercial floor space. Within the Group, a distinction is made between the development of vacancy across the Group's residential units (i.e. excluding commercial floor space and the effects of acquisitions and sales during the financial year), and the development of vacancy for the overall portfolio. Corporate controlling is primarily based on the development of vacancy across the entire portfolio. The vacancy rate serves as an indicator of the effectiveness of the Group's modernisation and letting activities, and of the successful implementation of neighbourhood development concepts. Vacancy reduction is another driver of value in the development of rental growth. For corporate controlling, vacancy across the residential units is the key indicator for assessing vacancy.

In addition, expenditures on maintenance and modernisation are calculated, reported and reviewed monthly and quarterly as supporting indicators. The measures are subdivided into 'major projects' (e.g. modernisation of entire residential complexes), modernisation of previously vacant apartments, and modernisation when there is a change of tenants. Reviewing the measures serves to assure both the achievement of target returns and the long-term maintenance of the portfolio.

Furthermore, contribution margins ('Deckungsbeiträge') are calculated on a quarterly basis for the two segments of 'Rentals' and 'Services'. For the Services segment, these are derived directly from the consolidated income statement. Here, segment earnings I of this segment correspond to the result of services reported in the consolidated income statement, while segment earnings II are calculated by deducting all other income and expenses with the exception of financing and income tax items. For the Rental segment, the contribution margin I (segment earnings I) for each region and for the Group as a whole is calculated from the net actual rents and related expenses. Taking into account personnel expenses and other operative costs directly attributable to the LIM regions, contribution margin I is carried over to contribution margin II (segment earnings II).

A detailed reconciliation of segment earnings II with EBT as reported in the income statement can be found in the notes to the consolidated financial statements in the section 'Notes to segment reporting'. In the Rental segment, the contribution margin II or the segment earnings II are also, after deduction of related interest expenses, put in relation to the equity invested (calculated as the book value of the region's real estate assets less related bank loans) for each region. This yields the return on equity for the region, which is used as a measure of efficiency for the capital investment.

Financial KPIs
Key indicators for Group controlling are funds from operations (FFO) and net asset value (NAV), which are calculated monthly.

- Funds from operations (FFO)
  FFO I is calculated based on the Group's consolidated EBT, adjusted for non-cash items, such as valuation results, depreciation, amortisation (without an adjustment for impairment losses on rent receivables), non-cash interest expense and without regularly recurring special effects, and then deducting current tax income. Within FFO a distinction is made between FFO I (excluding profits from sales) and FFO II (including profits from sales). The Group uses FFO I, which is calculated monthly and compared with the budgeted figures, as a key control parameter: it serves as an indicator of sustainable operative profitability.

- Net asset value (NAV)
  NAV is calculated in accordance with the EPRA's 'Best Practice Recommendations'. Accordingly, equity as a measure of net assets is adjusted for the effects of deferred taxes on investment properties and derivative financial instruments and for the fair value of the derivatives themselves, and any hidden reserves in the property, plant and equipment and inventories measured at cost of acquisition or construction are added. If the convertible bonds issued by the Group are 'in the money', i.e. the current market price on the reporting date is above the conversion price applicable at that time, a fully diluted NAV that assumes a notional complete conversion of the convertible bonds is also calculated. For corporate controlling, however, NAV on an undiluted basis is used as the key performance indicator.

Another supporting indicator used is Earnings before taxes (EBT), excluding results from fair value changes in investment properties and valuation of portfolio properties, as well as from the valuation of derivative financial instruments. This is determined at least once a year.

Beyond this, the Loan to Value (LTV) debt ratio, which is the sum of total financial liabilities (bank loans and corporate and convertible bonds including promissory note loans and commercial papers), less cash and cash equivalents relative to total real estate assets (including hidden reserves in real estate held as tangible or intangible assets and measured at cost of acquisition or construction, as well as advance payments made on real estate and company acquisitions), is calculated on a monthly basis and reported to the Management Board as a further supporting indicator.

The Group's current liquidity situation is reviewed daily. Each month, a short- to medium-term liquidity plan is compiled, for a period of twelve months. Once a year, a long-term liquidity plan is drawn up for a period of three years. In each case, the 'available liquidity' (a supporting indicator) is reviewed, i.e. unrestricted cash and bank balances plus any unused credit lines at banks. These measures safeguard the Group's financial stability.

The relevant parameters and key figures for the remuneration of the Management Board are presented in the remuneration report.

Social conditions and their influence on the real estate market

The growing population continues to exert pressure on the German housing market. In 2018, more people will live in Germany than ever before (PR Destatis 27 Jun- 2019). Especially in the cities of Leipzig, Frankfurt am Main and Berlin, there has been an increase of 12.9%, 9.5% and 8.0% respectively between 2012 and 2018. Furthermore, the number of building permits issued is still far higher than the number of completions. The construction companies lack the personnel to carry out the work, and in 2018 the order backlog of unfinished orders has reached its highest level since 1997 (PR Destatis 4 Dec-2019, 16 Dec-2019). The goal of creating affordable living space has not been achieved as yet. Apartments would have to be built beyond demand for years to come. As a result, the demand for living space cannot be met at present and rents will continue to rise (savills.de/research, Ausblick Immobilienmarkt D 2020).

The absence of a turnaround in interest rates continues to have a major impact on the real estate market. The prospect of low interest rates and yields for a long time to come is increasing investor demand for real estate. Even more money will be available for real estate investments in the future, and since risk aversion will always remain high, the established German market in particular will remain a destination for investment. In addition to these positive fundamental data, however, the increasing complexity of regulatory measures could be an argument against investing in the German housing market in the future. This is particularly true for investors who do not yet have expertise in the German housing market. A direct impact is expected only on the Berlin housing market (savills.de/research, Ausblick Immobilienmarkt D 2020).

We also believe that regulatory aspects, in particular the resulting risks, are important to the societal conditions that directly influence the residential real estate market. In this connection, please refer to the "Forecast, Opportunity and Risk Report – Regulatory Risks" section below.

Sustainable corporate development*

As a large real estate company, TAG has a special responsibility to society – and so we consider sustainability aspects in our corporate strategy, across our entire value chain. This applies also and especially to social concerns towards our tenants: we provide reasonably priced housing and are socially engaged in the neighbourhoods we manage. We understand sustainable corporate development as an integrated concept with synergy effects between the various levels of sustainability. As we see it, by achieving economic stability and long-term yields, we create the conditions for practicing social and environmental responsibility. By the same token, we reckon our social and environmental measures have a positive effect on our long-term commercial success. And so, in sum, we meet all of our various stakeholders' key requirements.

Our reporting on this topic is published in a separate Sustainability Report for a given year. It is based on the standards of the Global Reporting Initiative (GRI) and the European Public Real Estate Association (EPRA).

For further details, please see our Sustainability Report, which can be found on the TAG website at www.tag-ag.com under 'Investor Relations/Financial Reports/Sustainability Reports'. This Sustainability Report represents TAG's non-financial declaration in accordance with its reporting obligations under Sections 289 et seq. and 315b et seq. of the German Commercial Code (HGB).

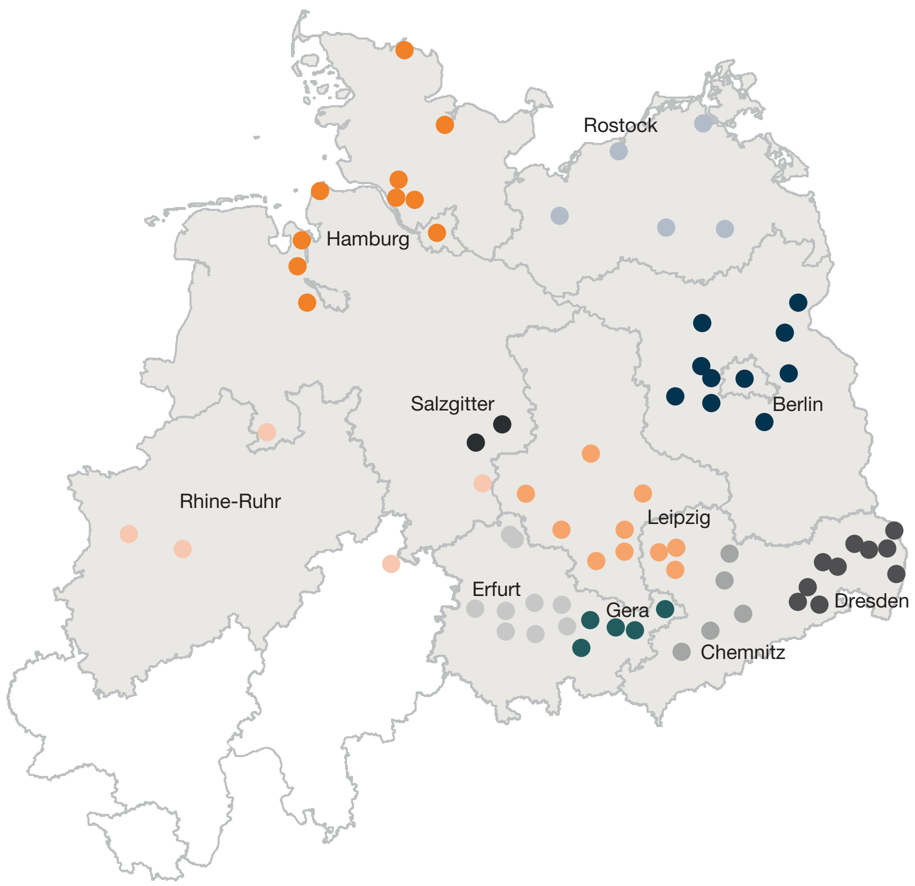
Research and Development

Due to the nature of its business, the Group does not pursue any research and development activities. The Group's business does not depend on patents, licences or brands, although the wordmarks and logos of TAG Immobilien AG and "TAG Wohnen" are copyrighted.

* unaudited information

Overview of the portfolio and portfolio strategy

At the end of the 2019 financial year, TAG Group's property portfolio comprised nearly 84,500 units. The focus is on the management of attractive yet affordable housing, with great awareness of our social responsibility towards our tenants. The regional focus is mainly on Northern and Eastern Germany.



- **Berlin region** (15%)
- **Chemnitz region** (7%)
- **Dresden region** (10%)
- **Erfurt region** (13%)
- **Gera region** (8%)
- **Hamburg region** (11%)
- **Leipzig region** (11%)
- **Rhine-Ruhr region** (6%)
- **Rostock region** (9%)
- **Salzgitter region** (10%)

% acc.: proportional IFRS book value to real estate volume

Portfolio data	12/31/2019	12/31/2018
Units	84,510	84,426
Floor space in sqm	5,094,435	5,132,860
Real estate volume in EUR m	5,302.4	4,815.5
Annualised net actual rent in EUR m p.a. (total)	319.9	314.1
Net actual rent in EUR per sqm (total)	5.51	5.39
Net actual rent in EUR per sqm (residential units)	5.39	5.29
Vacancy in % (total)	4.9	5.3
Vacancy rate in % (residential units)	4.5	4.7
l-f-l rental growth in %	1.9	2.3
l-f-l rental growth in % (incl. vacancy reduction)	2.4	2.6

TAG concentrates resolutely on regions that exhibit positive economic growth and development. We feel the 'ABBA strategy', i.e. investing in A locations in B cities, and B locations in A cities, is working better than ever. Small and medium-sized cities are also benefitting from the disproportionate demand for housing in cities, where affordable living space in particular is scarce. Many people are moving to the outskirts of big cities or to the centres of medium-sized cities to find attractive yet affordable living conditions.

Even if the rents in B locations or B cities do not always match Germany's top locations in absolute terms, we feel they are nevertheless very attractive. In our view, the achievable return, i.e. the ratio of the expected rent or the expected FFO I to the purchase price or the equity employed, is a key criterion in assessing the advantageousness of an investment. In our view, B locations and B cities offer the much better yield-risk profile.

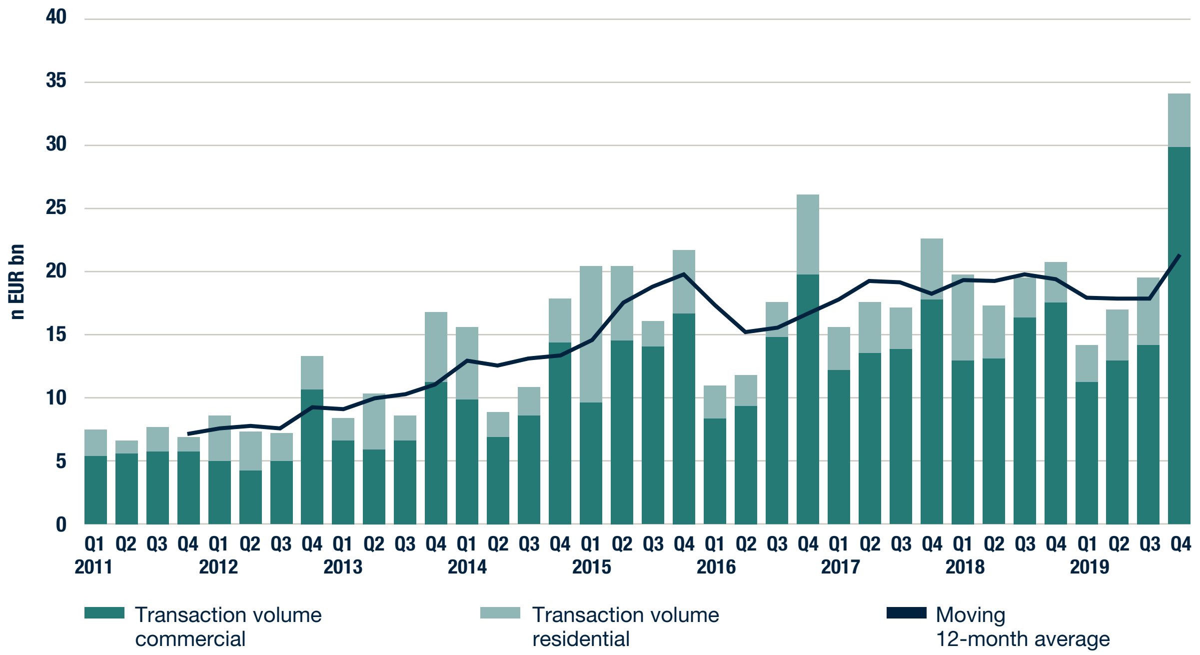
Investments are made exclusively in residential properties, including the smaller commercial properties that are sometimes part of larger residential portfolios. High vacancy rates at the time of purchase are not an impediment to investment, provided that they are not structurally caused. In fact, a continuous reduction in vacancy, as has been achieved steadily in the past, can lead to attractive rental growth with a relatively low outlay.

In contrast, TAG is pursuing a different approach in Poland. Although we will also be concentrating on the rental market for residential real estate here, investments will be made exclusively in new construction projects as well as in the country's major cities, because we see substantial growth opportunities in these products and markets and we feel that – in contrast to Germany – the returns which can be achieved here are very attractive.

BUSINESS REPORT

Development of the German residential real estate market

The analyses of leading real estate service providers such as CBRE GmbH, Savills Deutschland, and Jones Lang LaSalle Germany describe the past year 2019 as another record year for transaction volumes in commercial and residential real estate. According to CBRE, at more than EUR 84.5bn, investment in the German property market is significantly higher than in the previous year, up by 9%, and confirms the unbroken attractiveness of the German property market.



Source: CBRE Research, Q4 2019

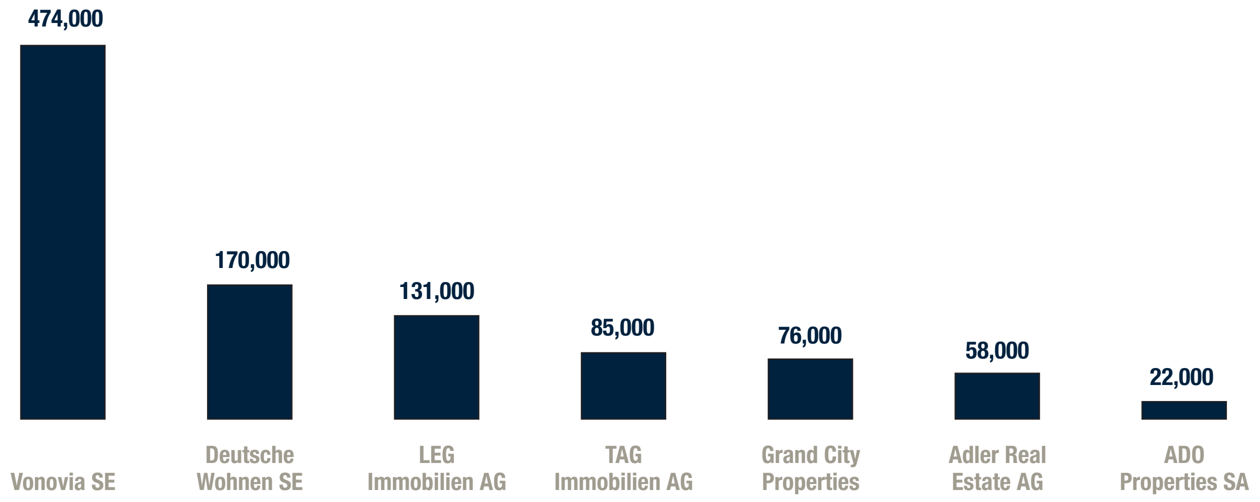
With regard to the residential real estate market, investor interest increased for the fourth year in a row, with reported volumes ranging from EUR 16.3bn (CBRE PM January 2020) and EUR 17.2bn (Savills PM January 2020) to around EUR 20bn (JLL PM January 2020) - depending on the transaction size count- up between 3% and 7% compared to 2018. So in 2019, the highest transaction volume of all time was thus achieved on the real estate investment market. (EY) However, the number of residential units traded is down, to 102,000 (CBRE), 118,000 (Savills) or 130,500 (JLL) units (previous year: between 117,000 and 133,000).

With a share of more than 90% (80% in the previous year), German investors again dominated the market's activities. On the buyer side, open-ended special funds and residential real estate companies are particularly noteworthy, but there is also increasing interest from municipal and state-owned housing companies. The seller side is dominated by project developers (JLL, Savills). Although the differences in regulation within Germany may have made it more difficult for international investors to enter the market, all discussions aside domestic and international investors alike continue to bet on the trend of migration to German cities and their suburbs (CBRE January 2019).

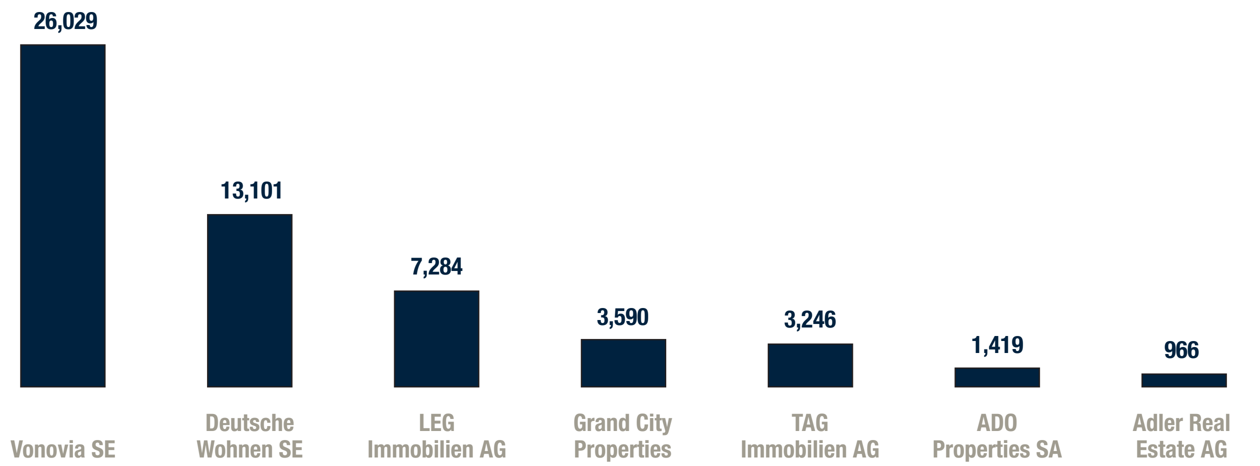
The year 2020 will continue to be defined by the competition in the low-interest-rate environment and the housing policy debate. In JLL's view, legal uncertainties resulting from political discussions will continue to contribute to major portfolio reallocations and a highly dynamic transaction market (JLL). Analysts are again expecting a transaction volume of between EUR 15bn (CBRE, Savills) and EUR 19bn (JLL) and a sustained positive development on Germany's residential real estate market. Investors continue to focus strongly on real estate as an investment product, and in the current interest rate environment there are still few alternatives for generating a stable cash flow (EY).

In the peer group of listed residential real estate corporations, the number of apartments (at the end of the third quarter of 2019) and the market capitalisation (at 31 December 2019 in EUR bn) are as follows:

Number of Apartments



Market capitalisation



Development of the individual regions

The following data for the period currently available and the data for the comparable prior-year period are based on the municipality and country code research carried out by Wüest Partner Germany.

Northern Germany (Hamburg and Salzgitter region)
Hamburg is one of the most important industrial locations in Germany. As the second-largest city after Berlin, Hamburg is an important economic hub for trade, transport and the aviation industry. Good infrastructure, innovative companies and a skilled workforce are some of the factors contributing to the current growth of its economy. Demand for apartments remains high.

Selected data Hamburg (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
116.4 (2017)	1.8m (2018)	6.0% (2019)	12.21 EUR/m² (Q4 2018-Q3 2019)	4,794 EUR/m² (Q4 2018-Q3 2019)
113.0 (2016)	1.8m (2017)	5.9% (2018)	11.94 EUR/m² (Q4 2017-Q3 2018)	4,484 EUR/m² (Q4 2017-Q3 2018)

Salzgitter is located in south-eastern Lower Saxony. The economic structure is characterised by an above-average proportion of manufacturing, especially the railway, steel and vehicle industries, making Salzgitter one of Lower Saxony's leading industrial locations. International companies that have operations in the region include Salzgitter AG, Volkswagen AG, Alstom, MAN, Robert Bosch Elektronik GmbH, and an IKEA distribution centre.

Selected data Salzgitter (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
5.6 (2017)	0.1m (2018)	8.4% (2019)	5.50 EUR/m² (Q4 2018-Q3 2019)	1,182 EUR/m² (Q4 2018-Q3 2019)
5.1 (2016)	0.1m (2017)	8.7% (2018)	5.35 EUR/m² (Q4 2017-Q3 2018)	1,064 EUR/m² (Q4 2017-Q3 2018)

Berlin and Brandenburg (Berlin region)
Berlin is a major centre for politics, media, culture, and science in Europe and one of Europe's most visited cities. In 2019, more than six million people were living in the federal states of Berlin and neighbouring Brandenburg (press release from the Office for Statistics). The city's popularity is steadily driving rents up. In particular, there is a lack of affordable housing in the medium-price and even more so in the lower-price segment.

Selected data Berlin (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
139.7 (2017)	3.6m (2018)	7.7% (2019)	12.09 EUR/m² (Q4 2018-Q3 2019)	4,485 EUR/m² (Q4 2018-Q3 2019)
130.5 (2016)	3.6m (2017)	7.6% (2018)	11.50 EUR/m² (Q4 2017-Q3 2018)	4,035 EUR/m² (Q4 2017-Q3 2018)

Other states in former East Germany (Chemnitz, Dresden, Erfurt, Gera, Leipzig, and Rostock regions)
The Eastern German federal states continue to show a positive trend. Substantial declines in vacancies, various urban redevelopment projects, and the influx into the Eastern German metropolises that has been going on for years (Housing Market Report 2019, JLL) provide evidence for this positive trend, as does the TAG Housing Market Report, which was published for the third time in 2018: The successful demographic development of recent years has had a positive effect on the number of households and thus on demand for housing, the steadily dwindling vacancy rate and supply rents.

Chemnitz is the third-largest city in Saxony and one of Germany's leading industrial and technology hubs. Sectors such as the automotive supply industry and mechanical engineering are growth engines for the economy.

Selected data Chemnitz (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
8.6 (2017)	0.2m (2018)	6.3% (2019)	5.07 EUR/m² (Q4 2018-Q3 2019)	1,140 EUR/m² (Q4 2018-Q3 2019)
8.5 (2016)	0.2m (2017)	6.6% (2018)	5.04 EUR/m² (Q4 2017-Q3 2018)	1,088 EUR/m² (Q4 2017-Q3 2018)

As the capital of Thuringia, Erfurt offers good infrastructural conditions, which contributes to its attractiveness as a business location, and is home to well-known companies such as Zalando, Siemens and Deutsche Post.

Selected data Erfurt (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
8.4 (2017)	0.2m (2018)	5.3% (2019)	7.36 EUR/m² (Q4 2018-Q3 2019)	2,158 EUR/m² (Q4 2018-Q3 2019)
8.1 (2016)	0.2m (2017)	5.5% (2018)	7.28 EUR/m² (Q4 2017-Q3 2018)	1,988 EUR/m² (Q4 2017-Q3 2018)

Dresden is one of the leading business hubs in Germany. Its population is growing, and the purchasing power of its households is on the rise. Factors that boost its attractiveness include the university and in business, the renewable energies sector is a main contributor. The city has become a top location in the areas of microelectronics, nanotechnology, new materials and life sciences. There is now a shortage of apartments in the entire urban area, which is reflected in higher rents.

Selected data Dresden (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
21.5 (2017)	0.6m (2018)	5.3% (2019)	7.63 EUR/m² (Q4 2018-Q3 2019)	2,450 EUR/m² (Q4 2018-Q3 2019)
20.7 (2016)	0.6m (2017)	5.6% (2018)	7.50 EUR/m² (Q4 2017-Q3 2018)	2,169 EUR/m² (Q4 2017-Q3 2018)

Gera's location in the triangle formed by the three states of Thuringia, Saxony, and Saxony-Anhalt is increasingly an advantage in driving the city's development. Modern technology-driven companies – e.g. in the med-tech, microelectronics, software engineering and optics industries – are among the businesses that have settled here. Reasons include low wages and labour costs, reasonable land and real estate prices, and low utility and waste disposal costs.

Selected data Gera (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
2.7 (2017)	0.09m (2018)	7.9% (2019)	5.06 EUR/m² (Q4 2018-Q3 2019)	786 EUR/m² (Q4 2018-Q3 2019)
2.6 (2016)	0.09m (2017)	8.4% (2018)	5.00 EUR/m² (Q4 2017-Q3 2018)	754 EUR/m² (Q4 2017-Q3 2018)

Leipzig, a university and trade fair city in Saxony, is combining a wide range of activities to continually increase the economic efficiency of the city in the medium term. The city's economic strategy focuses on selected emerging industries: the automotive and supply industries, healthcare and biotechnology, energy and environmental technology, logistics, media, and the creative industries. Economically strong sectors, represented among others by BMW and Porsche in the automotive sector, make the location particularly future-proof. Young people in particular appreciate Leipzig's appeal.

Selected data Leipzig (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
20.7 (2017)	0.6m (2018)	5.9% (2019)	6.98 EUR/m² (Q4 2018-Q3 2019)	2,200 EUR/m² (Q4 2018-Q3 2019)
19.9 (2016)	0.6m (2017)	6.1% (2018)	6.61 EUR/m² (Q4 2017-Q3 2018)	1,893 EUR/m² (Q4 2017-Q3 2018)

With its location on the Baltic Sea and well-developed infrastructure, Mecklenburg-Western Pomerania's biggest city Rostock is an attractive business location. The Hanseatic city is regarded as a centre for interregional trade, administration, trade shows, culture, education, and services, as well as a growing university town. The newly created innovation centre is intended to further substantiate the economic uptrend.

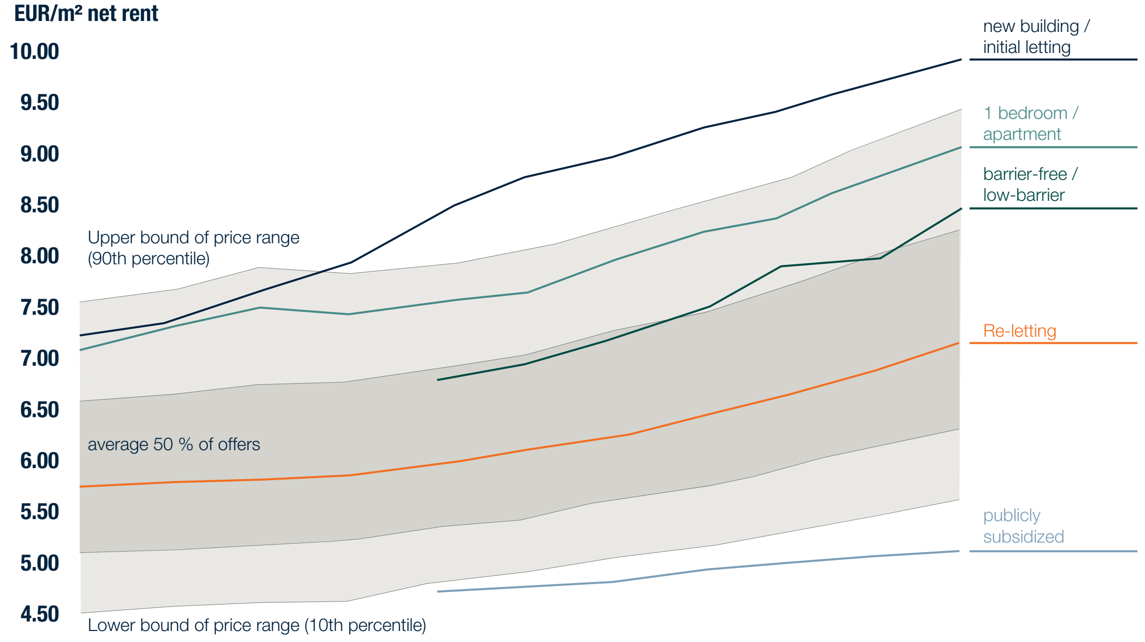
Selected data Rostock (city)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate	Median quoted rent (portfolio)	Ø Purchase price (portfolio)
7.8 (2017)	0.2m (2018)	6.3% (2019)	6.94 EUR/m² (Q4 2018-Q3 2019)	3,329 EUR/m² (Q4 2018-Q3 2019)
7.2 (2016)	0.2m (2017)	7.3% (2018)	7.29 EUR/m² (Q4 2017-Q3 2018)	3,303 EUR/m² (Q4 2017-Q3 2018)

North Rhine-Westphalia (Rhine-Ruhr region)
Its volume of production and services makes North Rhine-Westphalia the leading business hub in the German states. As Germany's core industrial region, it is home to international corporations, but also to many SMEs, as well as big-name retail companies such as Aldi, Metro and Rewe.
The steadily rising population and household figures reflect the state's attractiveness and are particularly evident in the demand for residential real estate and associated rise in purchase prices and rents.

Selected data NRW (federal state)

GDP in EUR bn	Population/ Inhabitants	Unemployment rate
685.2 (2017)	17.9m (2018)	6.4% (2019)
668.9 (2016)	17.9m (2017)	6.4% (2018)

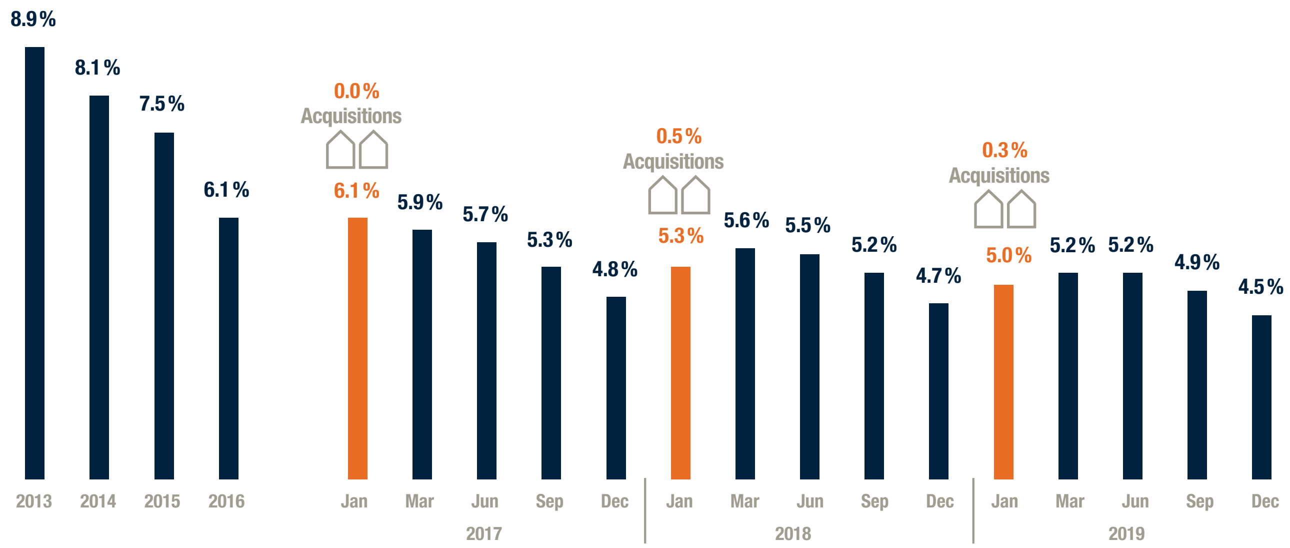


(Housing Market Report North Rhine-Westphalia 2018)

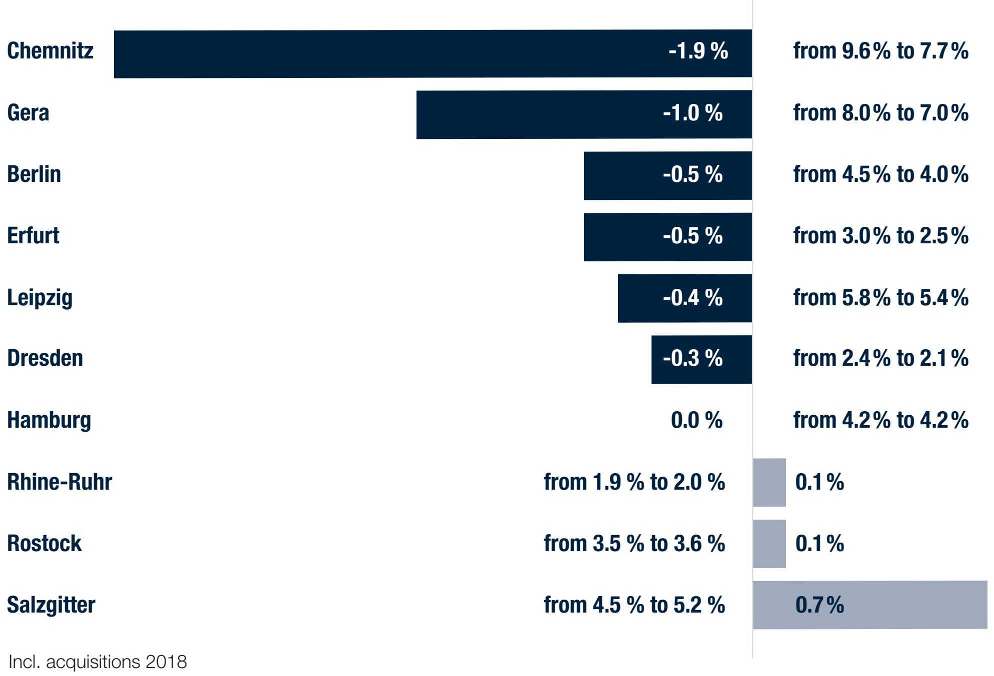
Operative Business Performance and Portfolio Developments

Vacancy
After a temporary rise in vacancy due to the integration of acquisitions from the previous year and ongoing modernisation programmes, vacancy in the residential units of the portfolio dropped during the course of the 2019 financial year from 5.0% at the beginning of the year to 4.5% as at 31 December 2019. In the portfolio as a whole, vacancy fell to 4.9% after 5.3% at the beginning of the year.

The following diagram (unaudited quarterly figures) highlights once again the positive development of vacancy in the Group's residential units in the 2017 to 2019 financial years:



The regions managed by TAG contributed in %-points to this result as follows:



Incl. acquisitions 2018

Major vacancy reductions were achieved particularly in the regions of Chemnitz (vacancy reduction by 1.9 percentage points), Gera (-1.0 percentage points), and Berlin and Erfurt (-0.5 percentage points each). All regions in TAG's real estate portfolio have vacancy rates of less than 8% as of 31 December 2019.

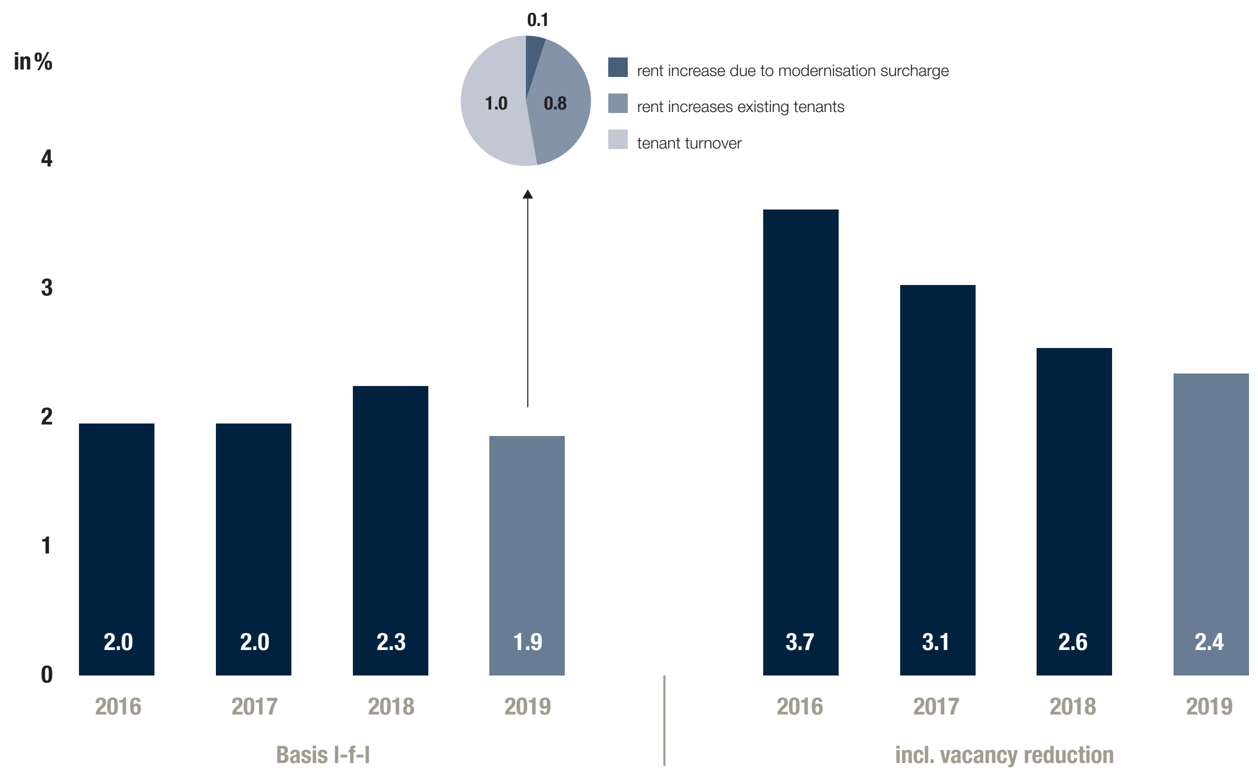
In the residential portfolio, vacancy stood at 4.5% in December 2019, after 5.0% at the beginning of the year. This means that the forecast we made in the previous year, which stipulated vacancy rates of between 4.4% and 4.7% in the Group's residential portfolio (excluding material purchases and sales), was achieved.

As at 1 January 2020, i.e. including the acquisitions that took effect on 31 December 2019, which had higher vacancy rates on average than the rest of the Group, the vacancy rate in the residential units was approximately 4.9%.

Growth in rents

Growth in rents from the Group's residential units amounted to 1.9% on a like-for-like basis (i.e. not including acquisitions and sales of the previous twelve months), after 2.3% in the previous year. This 1.9% growth in rents consisted of ongoing rent increases for existing tenants (0.8% after 1.3% in the previous year), rent increases in connection with a change of tenant (1.0% after 0.9% in the previous year), and rent increases due to modernisation allocations (0.1% after 0.1% in the previous year). Including the effects of vacancy reduction, total growth in rents on a like-for-like basis was 2.4% (2.6% in the 2018 financial year). So with regard to growth in rents, the previous year's forecast of total rental growth on a like-for-like basis including the effects of vacancy reduction of between 2.5% and 3.0% was only narrowly undershot.

The following diagram shows the development of growth in rents in the financial years 2016 to 2019:



Average rent in the portfolio's residential units increased from EUR 5.29 per sqm to EUR 5.39 per sqm in 2019. New lettings were made at an average of EUR 5.64 per sqm in FY 2019. This, too, reflects an increase over the previous year (EUR 5.60 per sqm).

The portfolio in detail

The following table shows further details of the TAG property portfolio, by region:

Region	Units	Rentable area sqm	IFRS BV EURm 12/31/2019	In-place yield %	Vacancy Dec. 2019 %	Vacancy Dec. 2018** %	Current net rent EUR/sqm	Reletting rent EUR/sqm	l-f-l rental growth (y-o-y) %	l-f-l rental growth in total*** (y-o-y) %	Maintenance EUR/sqm	Capex EUR/sqm
Berlin	10,410	596,927	779.6	5.1	4.0	4.4	5.76	6.26	3.2	4.1	7.13	12.17
Chemnitz	7,531	439,457	347.9	6.9	7.7	9.6	4.92	5.04	0.8	3.0	6.96	37.70
Dresden	6,300	409,046	532.7	5.2	2.1	2.5	5.75	6.08	1.9	2.2	4.19	6.29
Erfurt	10,565	594,494	660.9	5.5	2.5	2.9	5.24	5.57	2.3	2.8	5.00	10.74
Gera	9,652	561,316	431.2	7.3	7.0	8.1	5.02	5.27	1.1	2.6	5.86	10.96
Hamburg	7,067	434,556	543.6	5.3	4.2	4.2	5.76	6.00	1.6	1.6	9.96	14.27
Leipzig	10,014	589,857	568.1	6.2	5.4	4.1	5.28	5.60	1.5	1.9	6.48	6.51
Rhine-Ruhr	4,187	266,405	318.0	5.4	2.0	1.9	5.48	5.66	1.9	1.8	9.71	6.61
Rostock	7,118	425,362	446.4	6.0	3.6	3.0	5.43	5.70	1.4	1.6	7.11	16.80
Salzgitter	9,180	563,122	525.1	6.6	5.2	4.5	5.39	5.51	2.7	1.9	7.51	15.30
Total residential units	**82,024**	**4,880,542**	**5,153.4**	**5.9**	**4.5**	**4.7**	**5.39**	**5.64**	**1.9**	**2.4**	**6.82**	**13.63**
Acquisitions	1,164	44,006	36.8	8.1	7.8	12.9	6.08	–	–	–	–	–
Commercial units within residential portfolio	1,155	149,003	–	–	16.3	16.8	7.98	–	–	–	–	–
Total residential portfolio	**84,343**	**5,073,552**	**5,190.2**	**6.1**	**4.9**	**5.3**	**5.47**	–	–	–	–	–
Other*	167	20,883	112.2	5.8	8.1	5.1	14.53	–	–	–	–	–
Grand total	**84,510**	**5,094,435**	**5,302.4**	**6.1**	**4.9**	**5.3**	**5.51**	–	–	–	–	–

* Incl. commercial properties and serviced apartments. Incl. EUR 54.1m book value of project developments
** Excl. acquisitions 2018
*** Incl. effects from vacancy reduction

Revaluation of the portfolio in the financial year under review

As in the previous years, in the 2019 financial year two valuations were carried out by CBRE GmbH as an independent appraiser. The appraisals were once again carried out at 30 June and 31 December of the year.

The overall valuation result for the 2019 financial year was a gain of EUR 414.1m. Of this, around EUR 110.2m (approx. 27%) is attributable to a better operating performance than projected in the previous valuation, and around EUR 303.9m (approx. 73%) to 'yield compression'.

The following table shows the valuation effects in more detail for the individual regions:

Region (in EUR m)	12/31/2019 Fair value (IFRS)	12/31/2019 Fair value (EUR/sqm)	12/31/2019 Implied multiple	FY 2019 Valuation result	Share of operational performance/other market developments	Share of Yield compression	12/31/2018 Fair value (IFRS)	12/31/2018 Fair value (EUR/sqm)	12/31/2018 Implied multiple
Berlin	779.6	1,240.9	18.6 x	84.5	31.8	52.8	668.7	1,120.2	17.3 x
Chemnitz	347.9	764.9	14.2 x	13.7	5.4	8.4	318.9	696.2	13.2 x
Dresden	532.7	1,266.4	13.8 x	51.9	13.9	38.0	479.4	1,130.6	17.1 x
Erfurt	660.9	1,069.8	17.1 x	64.1	10.5	53.7	589.8	958.5	15.8 x
Gera	431.2	734.2	13.2 x	13.6	7.2	6.4	412.1	693.5	12.9 x
Hamburg	543.6	1,224.0	18.1 x	51.9	5.5	46.4	486.2	1,094.0	16.5 x
Leipzig	568.1	946.4	15.6 x	47.5	11.8	35.8	534.0	861.6	14.4 x
Rhine-Ruhr	318.0	1,146.3	17.5 x	25.9	6.3	19.6	290.3	1,046.5	16.3 x
Rostock	446.4	1,027.7	16.2 x	38.6	14.4	24.2	325.6	955.5	15.0 x
Salzgitter	525.1	930.1	14.9 x	18.5	4.8	13.7	498.0	882.0	14.4 x
Total residential units	**5,153.4**	**1,024.6**	**16.4 x**	**410.4**	**111.4**	**299.1**	**4,603.1**	**932.6**	**15.3 x**
Acquisitions	36.8	835.5	12.3 x	0.3	0.0	0.3	115.4	704.0	13.3 x
Total residential portfolio	**5,190.2**	**1,023.0**	**16.4 x**	**410.7**	**111.4**	**299.3**	**4,718.5**	**925.3**	**15.2 x**
Other	**58.1***	**2,780.5**	**17.4 x**	**3.4**	**-1.2**	**4.6**	**97.0**	**2,915.6**	**21.0 x**
Grand total	**5,248.3***	**1,030.2**	**16.4 x**	**414.1**	**110.2**	**303.9**	**4,815.5**	**938.2**	**15.3 x**

* Incl. EUR 54.1m book value of project developments

The valuation multiplier of the portfolio (as a relation of the IFRS book value to net actual rent) increased from 15.3 at the end of 2018 to 16.4 at 31 December 2019. This corresponds to a gross initial yield of 6.1% (previous year: 6.5%). In price per square metre, the total portfolio now has a value of around EUR 1,030.00 after around EUR 940.00 at 31 December 2018.

Acquisitions in the 2019 financial year

In the 2019 financial year, purchase contracts for 1,331 (previous year: 2,727) residential units were notarised, for a total purchase price of EUR 50.1m (previous year: 111.9m). The average purchase multiplier (ratio between the purchase price excluding transaction costs and the current annual net actual rent) of 12.1 (previous year: 12.8) achieved here is to be considered very attractive given the stiff competition in the residential property market, and corresponds to an annual gross initial yield of 8.2% (previous year: 7.8%). Vacancy in the acquired portfolios averaged 11.0% (previous year: 12.7%), and therefore again offers development opportunities for active asset management within the Group.

In January 2020, a further purchase of 431 units in Saxony-Anhalt was notarised (pro forma information).

The acquisitions recorded during the past financial year 2019 and in January 2020 are summed up in the following table:

Signing	Thuringia/ Mecklenburg-Western Pomerania Mar/Jun/Aug 2019	Saxony-Anhalt Jun 2019	Mecklenburg-Western Pomerania Aug 2019	Total 2019	Saxony-Anhalt Jan 2020
Units	669	320	342	1,331	431
Net rent EUR/sqm/month	6.54	4.92	5.07	5.81	4.61
Vacancy in %	8.8	22.4	1.6	11.0	5.2
Purchase price in EUR m	–	–	–	50.11	–
Net rent EUR m p. a.	2.48	0.83	0.83	4.14	1.26
Location	diverse	Halle	Stralsund/ Greifswald	–	diverse
Closing	2019/ 2020 expected	Q1 2020 expected	Dec 2019	–	Q1 2020 expected
Multiples	–	–	–	12.1	–

In Poland, a contract for the acquisition of all shares in the property developer Vantage was signed on 8 November 2019. On the basis of a takeover bid price of PLN 11.50 per share, the total transaction price (based on a PLN/EUR exchange rate of 4.235) was PLN 558.5m (EUR 131.9m), of which PLN 197.0m (EUR 46.5m) was returned to Vantage, and thus indirectly to TAG, following the spin-off of the commercial real estate business, which was acquired by the previous shareholders. Accordingly, the net purchase price payable for Vantage Development's residential real estate business and platform amounts to PLN 361.5m (EUR 85.4m) and was financed entirely from TAG's existing liquidity.

Sales in the 2019 financial year

TAG is primarily a long-term portfolio holder. However, sales of smaller residential portfolios are also part of our strategy, whether to optimise the overall portfolio or to capitalise on favourable market opportunities. At the same time, a high degree of capital discipline is becoming increasingly important, especially in the current market environment. The reason why is because in some regions, purchase prices have already reached levels where long-term-oriented management is no longer attractive in relation to the equity capital costs. That is why we seize sales opportunities in locations where purchase prices for residential properties are growing much faster than rents – though only after a meticulous, expert review of each project, of course. The equity released by sales enables us to reinvest in properties in TAG's core regions with a higher initial yield. This is the principle of capital recycling.

In 2019, as in the previous year, the sale of non-core assets formed a primary focus of sales. These properties are not part of TAG's core portfolio due to their geographical location, type of use, or structural condition.

A total of 568 (previous year: 1,614) units were sold in the past financial year at a total purchase price of EUR 18.2m (previous year: EUR 66.2m). The average factor based on current annual net rent for the residential real estate was 12.1 times (previous year: 12.7 times), which corresponds to an annual gross initial yield of 8.3% (previous year: 7.9%). The net cash proceed, i.e. the purchase price remaining after deduction of the loans to be repaid, amounted to around EUR 17.9m in the 2019 financial year (previous year: around EUR 53.5m). The sales result in a book gain of EUR 0.8m (previous year: EUR 1.0m).

Furthermore, the sale of one of two shareholdings in a commercial project development in Munich was notarised in December 2019, and is expected to close at the end of 2020. The parties have agreed not to disclose details of the contract, in particular with regard to the agreed purchase price. TAG expects a net cash proceed from this sale, after deduction of shareholder loans granted by TAG, of around EUR 55–60 million.

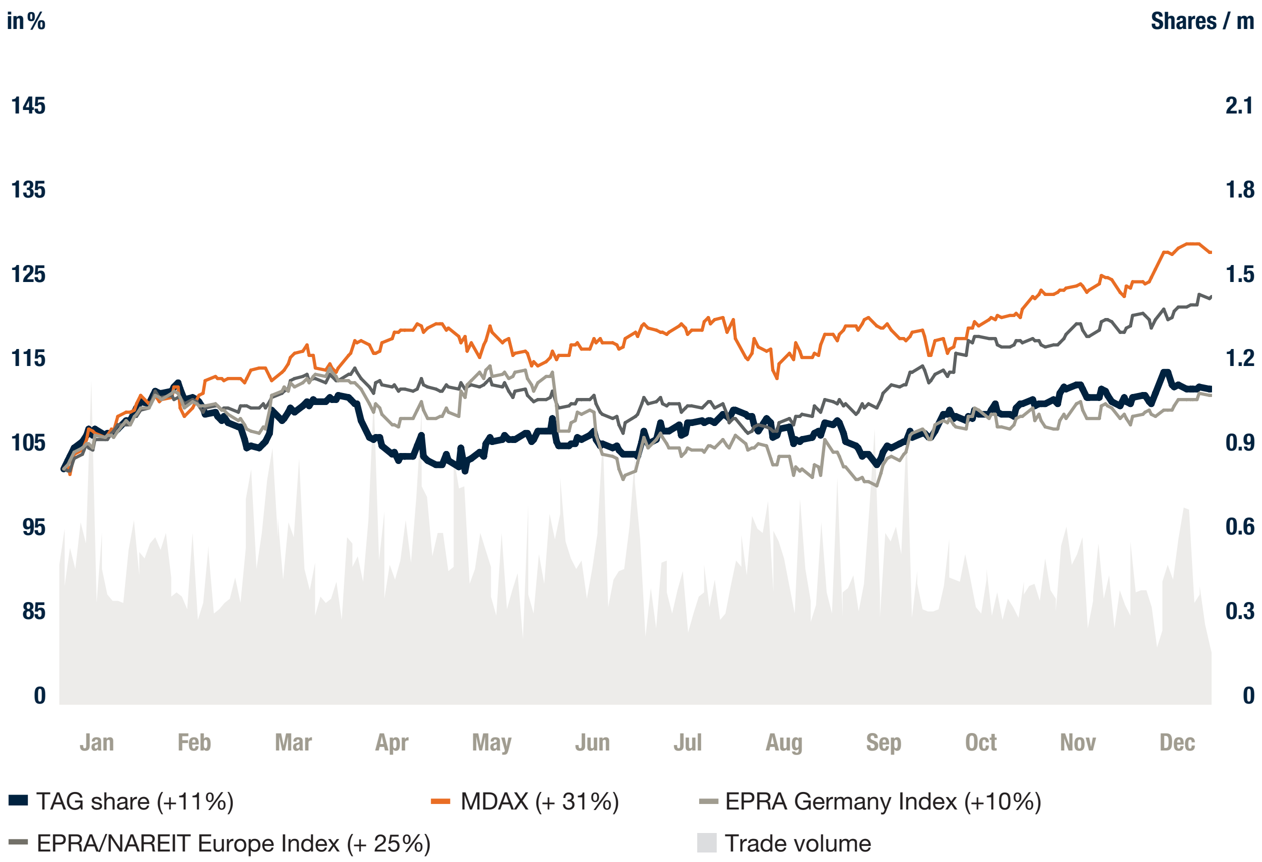
The following table provides an overview of the sales recorded in the 2019 financial year:

Signing	Brandenburg Dec 2019	Various locations 2019	Total 2019
Units	203	365	568
Net rent EUR/sqm/month	3.75	4.26	4.05
Vacancy in %	12	24	19
Purchase price in EUR m	–	–	18.2
Net rent EUR m p. a.	0.57	0.94	1.51
Net cash proceeds EUR m	4.9	13.0	17.9
Book profit in EUR m	0.0	0.8	0.8
Locations	Jänschwalde	–	–
Closing	Q3 2020 expected	2019/2020	–
Multiples	–	–	12.1

The TAG share and the capital market

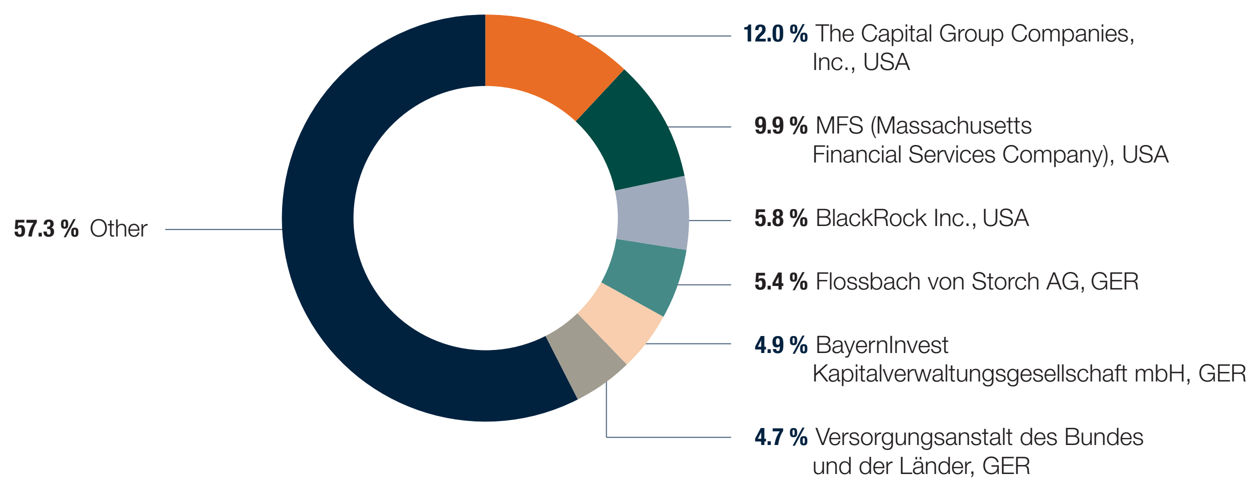
The price of the TAG share, which is listed in the MDAX, performed positively again in the 2019 financial year, and was traded at EUR 22.16 at year-end 2019 (after a closing price of EUR 19.91 at the end of the previous year). Thus the share increase for the year under review was 11% (previous year: 26%). Additionally taking into account the dividend of EUR 0.75 per share paid out in May 2019, the overall performance of the TAG share in 2019 is +15% (previous year: +30%).

The EPRA index, comprised of various European real estate companies listed on international stock exchanges, recorded a 25% increase (previous year: 11% decline). At the national level, the MDAX rose by 31% following a decline of 18% in the previous year, while the EPRA Germany, the index that groups the key German real estate stocks, rose by 10% (previous year: +1%), which puts it slightly below TAG's share performance, as shown in the diagram below:



TAG's market capitalisation was EUR 3.2bn on 31 December 2019, compared to EUR 2.9bn on 31 December 2018. The share capital and number of shares at 31 December 2019 were EUR 146,498,765.00 or 146,498,765 shares, the same as in the previous year. Free float at the reporting date was 99.89% of the share capital. 0.11% (161,815 shares) of the share capital as of 31 December 2019 after 0.12% (177,115 shares) as of 31 December 2018 are held by TAG as treasury shares for purposes of Management Board and employee compensation.

As before, national and international investors with a predominantly long-term investment strategy make up the majority of TAG shareholders, as the following diagram (as at 31 December 2019) shows:



The highest closing price of the TAG share in 2019 was EUR 22.68 (previous year: EUR 21.32) on 17 December 2019 , the lowest was EUR 19.83 (previous year EUR 14.86) on 8 May 2019. The average daily trading volume on XETRA in 2019 was approximately 453,200 (previous year: 446,000) shares.

TAG lets its shareholders participate substantially in the Company success by paying an attractive dividend. At last year's Annual General Meeting, which took place on 7 May 2019 in Hamburg, a dividend of EUR 0.75 per share, after EUR 0.65 per share for the 2018 financial year, was approved and subsequently paid out. For the 2019 and 2020 financial years, we plan to again pay out increased dividends of EUR 0.82 per share and EUR 0.87 per share, respectively, which in both cases corresponds to a pay-out ratio of 75% of FFO I.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSET POSITION

Results of operations

Rental revenues and net rental income
The positive development of rental growth and vacancy reduction is also reflected in the rise in rental income. Besides this, the portfolio taken over at the end of FY 2018 and over the course of FY 2019 contributed to the rise in rental income. In all, net actual rent increased from EUR 302.2m to EUR 315.0m (+4.2%, which includes the aforementioned like-for-like growth in rents totalling 2.4%). Including the additional income to be reported under rental revenues (mainly third-party operating and utility costs), total rental revenues increased to EUR 405.5m after EUR 400.4m in the previous year.

As a result of the increased net actual rent, the Group's rental profit – i.e. revenues net of expenses for property management from continuing operations – also improved from EUR 246.1m in the previous year to EUR 259.6m in 2019.

For the Rental segment, the segment result II , after deduction of operating costs and directly attributable personnel and material costs, is EUR 213.6m (previous year: EUR 201.2m).

Results from sales of investment properties and properties held as inventories
At EUR 41.7m, revenues from the sale of inventory and investment properties in 2019 were below the previous year's EUR 84.4m and involved, besides the ongoing smaller sales of individual flats, apartment houses and a larger portfolio in the federal state of Brandenburg, Saxony and Saxony-Anhalt.

Besides the book profits, the sales results also include commission expenses of EUR 0.7m (previous year: EUR 0.7m) for ongoing sales; allocations to accruals for compensation risks and litigation costs from building projects and sales from previous years of EUR 0.0m (previous year: EUR 0.3m); and other selling costs of EUR 0.1m (previous year: EUR 0.1m).

Revenues from services and net service income
The revenues from services, totalling EUR 51.2m (previous year: EUR 44.8m), relate to the business fields of energy management, multimedia, small repair services, in-house caretaker and maintenance services, and homeowner association management. Of this, EUR 1.7m (previous year: EUR 1.5m) relates to proportionately attributable property tax and insurance charges. Due to the first-time application of IFRS 16 in the financial year under review, the cost of services fell by EUR 0.4m year-on-year. After deducting the directly attributable purchase and material costs, the net service income amounts to EUR 21.0m (previous year: EUR 17.7m).

In the services segment, the segment result II amounts to EURm 8.0 (previous year: EURm 6.9) , after deduction of directly attributable purchase- and personnel-costs as well as directly attributable cost of material.

Other operating income
Other operating income decreased to EUR 5.6m in FY 2019 (previous year: EUR 9.6m), mainly attributable to reversals of provisions (in particular EUR 2.3m from the reversal of the remainder of a provision that originally totalled EUR 8.5m for real estate transfer tax risks from transactions in 2011 and 2012), and other income for other accounting periods.

Revaluation
The revaluation (fair value change) of investment properties and effects from the valuation of inventory properties resulted in a once again very positive overall valuation result of EUR 414.1m in 2019 (previous year: EUR 430.0m; cf. also the 'Operating performance and development of the portfolio – Revaluation of the portfolio in the past financial year' section above).

Personnel expenses
Mainly as part of the Group's continued expansion of its caretaker and craftsman services, personnel expenses in FY 2019 increased to EUR 50.3m (previous year: EUR 43.7m).

In this connection, a total of EUR 32.7m (previous year: EUR 28.1m) in personnel expenses is allocated to individual segments. Of this, EUR 17.5m (previous year: EUR 16.4m) relates to the Rental segment and EUR 15.2m (previous year: EUR 11.7m) to the Services segment.

Other operating expenses
As a result of the first-time application of IFRS 16 in the 2019 financial year and the associated capitalisation of rights of use, other operating expenses decreased by EUR 1.6m year-on-year. Overall, at EUR 17.9m, other operating expenses were slightly above the previous year's level of EUR 17.1m. They mainly refer to IT costs, legal, consulting and audit costs, rental costs for leased business premises, car and travel expenses, and costs of communications.

Of this, a total of EUR 0.9m (previous year: EUR 1.5m) in directly allocable expenditure (and income) is assigned to the individual segments. Of this, expenditure of EUR 3.1m (previous year: EUR 2.4m) is attributable to the Rental segment, while the Services segment accounts for income of EUR 2.2m (previous year: EUR 1.0m).

Depreciation/amortisation of intangible assets and property, plant and equipment
The amortisation of intangible assets and property, plant and equipment of EUR 6.8m (previous year: EUR 4.3m) relate exclusively to scheduled depreciation, mainly to IT software and the Group's own owner-occupied properties, which are to be accounted for at amortised cost according to IFRS, to business equipment, and to rights of use within the meaning of IFRS 16. Amortisation charges increased by EUR 2.2m year-on-year due to the first-time application of IFRS 16.

Share of profit or loss of associates, income from associated companies, impairment of financial assets, and interest income
The total financial result, i.e. the result of investment income, income from associated companies, depreciation on financial assets, interest income, and interest expenditure, was EUR -77.6m (previous year: EUR 96.0m. Eliminating non-recurring effects in form of breakage fees in connection with sales, and the early repayment of bank loans and corporate bonds, as well as non-cash gains or losses from derivatives and convertible bonds, leads to a P&L cash financial result excluding special items of EUR -45.6m for the 2019 financial year (after EUR -54.6m in FY 2018); this amount is included in the calculation of the FFO.

This development clearly shows the further, continual improvement in financing costs achieved in 2019. The average interest rate on bank loans was reduced to 1.99% on 31 December 2019 (previous year: 2.19%); the total average cost of borrowing at the reporting date was 1.73% after 1.92% at the end of the previous year.

At EUR 1.4m, the sum total of income from investments, equity earnings from associated companies, and impairment of financial assets were not material, as in the previous year (EUR 1.8 m).

EBT

The Group had forecast earnings before taxes (EBT) of EUR 155m to EUR 157m or EUR 1.07 per share for the 2019 financial year (excluding fair value changes in investment properties and valuation of portfolio properties, and also excluding results from derivative financial instruments). In the 2019 financial year, TAG generated EBT – calculated in this way – of EUR 162.7m (previous year: EUR 143.4m), or EUR 1.11 (previous year: EUR 0.98) per share on a fully diluted basis. The main reason for the EBT forecast being exceeded was a better rental result, which is mainly due to unscheduled rental income from purchases and lower maintenance expenses.

Taxes on income

Taxes on income and earnings amounted to EUR 91.0m in 2019, compared with EUR 54.0m in 2018. The proportion of actual tax expenses in 2019 was EUR 7.2m (previous year: EUR 4.0 m), the remaining expenses of EUR 83.8m (previous year: 50.0m) relate to non-cash deferred taxes, primarily from the valuation of investment properties and from the activation of or value adjustments to deferred taxes on tax loss carry-forwards.

Consolidated net profit

Overall, in the 2019 financial year TAG achieved consolidated net profit of EUR 456.4m (previous year: 488.2m). The main reason for the EUR 31.8m decline in consolidated net income was a EUR 37.0m increase in income tax expense – primarily deferred taxes – and a EUR 15.9m decline in valuation gains. Positive factors were, in particular, a EUR 13.5m improvement in rental income and a EUR 19.5m reduction in interest expenses.

Adjusted EBITDA

For the 2019 financial year, this results in the following adjusted EBITDA and adjusted EBITDA margin as the ratio of adjusted EBITDA to net actual rent (not including results of sales):

in EUR m	2019	2018
EBIT	**624.9**	**638.2**
Revaluations	-414.1	-430.0
Elimination IFRS 16	-2.0	0.0
Depreciation	6.8	4.3
One-off's (provisions for real estate transfer tax risks; acquisitions)	-1.3	-6.2
Valuation result	0.4	0.1
EBITDA (adjusted)	**214.7**	**206.4**
Rental income (net rent)	315.0	302.2
EBITDA-Marge (adjusted)	**68.2 %**	**68.3 %**

The increase in adjusted EBITDA can mainly be attributed to the rise in rental income. At 68.2%, the EBITDA margin is nearly constant year-on-year. The special effects relate to a reversal of provisions of EUR 2.3m (previous year: reversal of provisions of EUR 6.2m) for potential real estate transfer tax risks from acquisitions in FY 2011 and 2012, and EUR 1.0m in expenses pertaining to the acquisition of the Polish company Vantage Development S.A.

Funds from Operations (FFO)

FFO I is calculated based on the Group's consolidated EBT, adjusted for non-cash items, such as evaluation results, depreciation, amortisation (without adjustment for impairment of rent receivables), non-cash interest expense (without the effects from the application of IFRS 16) and without regularly recurring special effects, and then deducting current tax income. FFO I also does not include proceeds from property sales. AFFO (Adjusted Funds From Operations) is based on FFO I, but minus the capitalised investments in the portfolio holdings ('Capex'). FFO II is based on FFO I and additionally takes into account the balance sheet profit from property sales. The number of shares outstanding was calculated as a weighted average.

The following table shows the calculation of FFO I, adjusted EBITDA, AFFO and FFO II in the financial year under review and as compared to the same period of the previous year:

in EUR m	01/01 - 12/31/2019	01/01 - 12/31/2018
Net income	**456.4**	**488.2**
Taxes	91.0	54.0
Financial result	77.6	96.0
EBIT	**624.9**	**638.2**
Adjustments		
Valuation result	-414.1	-430.0
Depreciation	6.8	4.3
One-off's (real estate transfer tax)	-1.3	-6.2
Elimination of IFRS 16 effects	-2.0	0.0
Sales result	0.4	0.1
EBITDA (adjusted)	**214.7**	**206.4**
Rental income (net rent)	315.0	302.2
EBITDA (adjusted)	**68.2%**	**68.3%**
Net finance income (cash, without one-time invoice)	-45.6	-54.6
Income taxes (cash)	-7.2	-4.0
Guaranted dividend minorities	-1.3	-1.3
FFO I	**160.6**	**146.5**
Capitalised maintenance	-15.3	-15.7
AFFO before modernisation capex	**145.3**	**130.9**
Modernisation capex	-51.4	-42.5
AFFO	**93.9**	**88.4**
Net revenues from sales	-0.4	-0.1
FFO II (FFO I + net revenues from sales)	**160.2**	**146.4**
Weighted average number of shares outstanding (in 000)	146,333	146,341
FFO I per share (in EUR)	**1.10**	**1.00**
AFFO per share (in EUR)	**0.64**	**0.60**
Weighted average number of shares fully diluted (in 000)	161,151	161,016
FFO I per share (in EUR)	**1.01**	**0.92**
AFFO per share (in EUR)	**0.59**	**0.56**

FFO I increased significantly year-on-year in 2019, both in absolute terms (from EUR 146.5m to EUR 160.6m) and on a per-share basis (from EUR 1.00 to EUR 1.10, without dilution effects).

In the previous year, the Group had forecast an FFO I of EUR 1.06 per share for FY 2019, which corresponds in absolute terms to an FFO I of EUR 154m to EUR 156m. This forecast was exceeded by around 4%, with FFO I at EUR 160.6m and FFO I at EUR 1.10 per share for the 2019 financial year. The main reason for this were a better-than-expected rental and services result at the end of the year.

Assets position

Assets

Assets at 31 December 2019 totalled EUR 5.6bn after EUR 5.0bn at 31 December 2018. In addition to investment properties of EUR 5,200.0m (previous year: EUR 4,666.7m), the Group's total real estate assets also include properties reported under property, plant and equipment totalling EUR 9.4m (previous year: EUR 9.5 m) as well as inventories of EUR 58.5m (previous year: EUR 52.3m). Beyond this, real estate of EUR 34.5m (previous year: EUR 87.0m) is reported under non-current assets held for sale. At 31 December 2019, total real estate assets amounted to EUR 5,302.4m, as compared to EUR 4,815.5m at the end of the previous year.

Cash and cash equivalents at 31 December 2019 totalled EUR 91.3m compared to EUR 91.7m at 31 December 2018.

Investments and Capex reporting

In the 2019 financial year, TAG further expanded its residential real estate portfolio with acquisitions, and signed contracts for the acquisition of approximately 1,330 units (previous year: approximately 2,700) for a total purchase price of EUR 50.1m (previous year: EUR 111.9m). In addition, an agreement was signed on 8 November 2019 for the acquisition of all shares in the property developer Vantage. The net purchase price for Vantage's residential real estate business and platform (the commercial real estate business was taken over by Vantage's previous shareholders) comes to PLN 361.5m (approximately EUR 85.4m). The transaction became legally effective on 13 January 2020

In 2019 TAG invested around EUR 99.8m (previous year: EUR 92.4m) in its like-for-like portfolio (without acquisitions and project developments) for routine maintenance and for modernisation/renovation. A total of EUR 33.3m was spent on maintenance recognised as expenses (previous year:34.3m), and EUR 66.5m on capitalisable investment (previous year: EUR 58.1m), broken down as follows:

in EUR m	2019	2018
Large-scale measures (e.g. modernisation of entire residential complexes)	35.1	26.9
Modernisation of apartments		
Previously vacant apartments	16.1	15.5
Change of tenants	15.3	15.7
Total modernisation costs like-for-like portfolio	**66.5**	**58.1**

Total investments (ongoing maintenance recognised in profit and loss and capitalised renovation and modernisation) in the Group's like-for-like portfolio amounted to EUR 20.45 per sqm in 2019, after EUR 19.24 per sqm in the previous year, and to EUR 19.65 per sqm across the whole portfolio (previous year: EUR 18.01 per sqm).

Broken down into acquisitions, project developments and the residential portfolio without the acquisitions of the year, total refurbishment expenses are as follows:

in EUR m	2019	2018
Acquisitions in the financial year	0.2	0.0
Project developments	7.9	11.4
like-for-like Portfolio	66.5	58.1
Other*	0.0	0.0
Refurbishment expenses total portfolio	74.6	69.5

* The item "Other" relates to rent-free periods for tenants as a result of modernisation work performed by the tenant themselves, but is of minor importance with a total volume of approx. TEUR 20 p.a.; information on modernisation expenses in connection with joint ventures is omitted as TAG does not hold any interests in joint ventures.

Expenses for project developments relate primarily to a commercial property development in Munich, which is being constructed in two stages of construction.

A detailed breakdown of ongoing maintenance expenditure and renovation, and modernisation measures per sqm for the individual regions can be found in the portfolio table in the 'Business performance – The portfolio in detail' section above.

The Group's segment reporting shows maintenance expenses and investment costs totalling EUR 66.1m (previous year: EUR 69.3m). This amount, which follows the internal reporting methodology, does not include some items that are capitalised in IFRS accounting, such as in the area of apartment modernisation.

Financial position

Equity

In the financial year 2019, the equity base was increased by EUR 456.4m (previous year: EUR 488.2m) as a result of ongoing Group income. In May 2019, a dividend payment in the amount of EUR 109.8m (previous year: EUR 95.1m) was made for the 2018 financial year. As of the balance sheet date, Group equity totalled EUR 2,394.2m (31 December 2018: EUR 2,048.3m). The equity ratio at the end of the 2019 financial year was 42.4%, compared with 40.7% at the end of the previous year.

Net Asset Value (NAV)

The following table shows the calculation of NAV for the entire portfolio:

in EUR m	12/31/2019	12/31/2018
Equity (without minorities)	2,342.6	2,006.5
Deferred taxes on investment properties and financial derivatives	492.8	425.2
Fair value of financial derivatives	71.5	42.0
Difference between fair value and book value for properties valued at cost	85.2	60.0
EPRA NAV	**2,992.1**	**2,533.6**
Number of share outstanding (in 000)	146,337	146,322
EPRA NAV per share (EUR)	**20.45**	**17.32**
Number of shares fully diluted (in 000)	161,191	161,023
EPRA NAV per share (EUR), diluted	**20.17**	**17.33**

The Group had forecast NAV (excluding changes in the fair value of investment properties and from the valuation of investment properties and excluding possible dilution effects from convertible bonds) of EUR 17.50 to EUR 17.60 per share for the 2019 financial year. This forecast was not attained with a NAV of EUR 17.44 per share adjusted for these fair value changes (absolute amount of EUR 3.00 per share), but this was due almost exclusively to the expenses, not included in the forecast, from the use of deferred tax assets on losses carried forward (EUR 0.11 per share).

Financing and liquidity

The loan-to-value (LTV) ratio at the reporting date is calculated as follows:

in EUR m	12/31/2019	12/31/2018
Liabilities to banks	1,901.2	1.855.5
Liabilities from corporate bonds and other loans	403.0	285.8
Liabilities from convertible bonds	258.9	257.5
Cash and cash equivalents	-91.3	-91.7
Net financial debt	**2,471.8**	**2,307.1**
Investment properties	5,200.0	4,666.7
Property reported under tangible assets	9.4	9.5
Property held as inventory	58.5	52.3
Property reported under non-current assets held for sale	34.5	87.0
Real estate volume (book value)	**5,302.4**	**4,815.5**
Book value of property for which purchase prices have already been paid in advance	130.4	-0.2
Difference between fair value and book value for properties valued at cost	85.2	60.0
Relevant real estate volume for LTV calculation	**5,518.0**	**4,875.2**
LTV	**44.8 %**	**47.3 %**

The TAG Group's degree of indebtedness was reduced to 44.8% as of 31 December 2019 (previous year: 47.3%). The positive real estate valuation results were the main reason for this significant reduction of 2.5 %-points.

TAG bases its funding on various pillars. In addition to bank loans secured by land / property in its subsidiaries, the Company also uses capital market-based financing, such as corporate bonds, convertible bonds and, albeit to a lesser extent, usually to a maximum of EUR 50m, short-term bearer bonds with maturities of generally one to six months as a special form of corporate bond ('Commercial Papers'). Since 2019 financial year, TAG has also added promissory note loans to its external financing. TAG and its subsidiaries can also draw on credit lines at banks.

The key data of the two corporate bonds outstanding at the reporting date, which were issued in the 2018 financial year, is as follows:

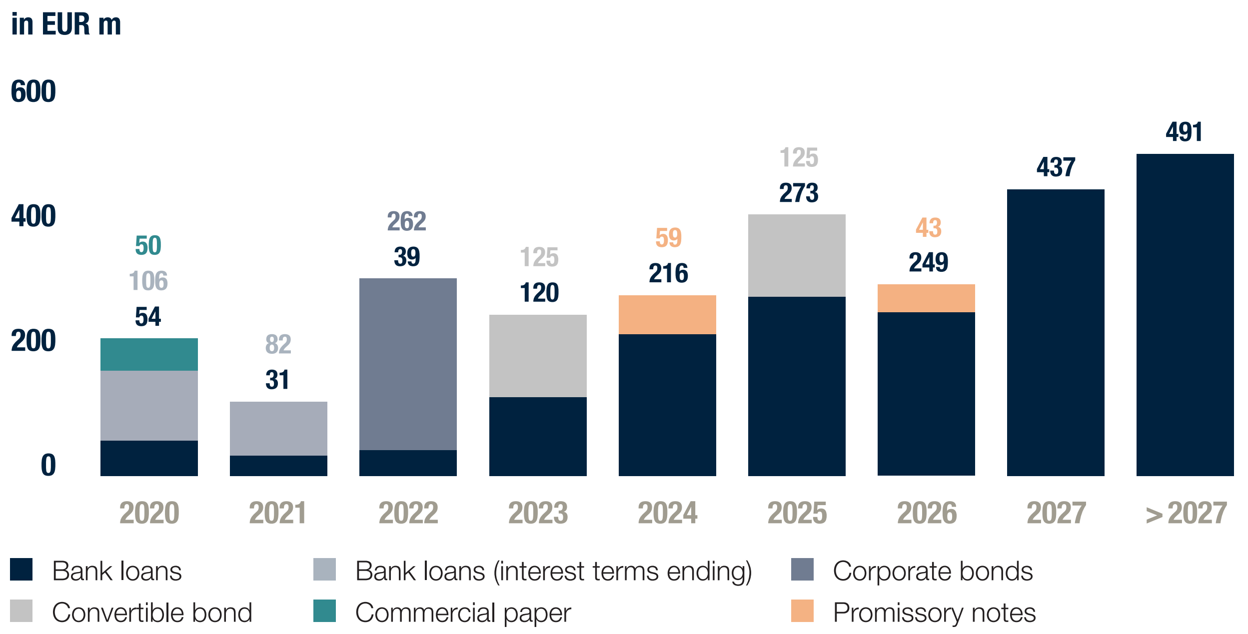
Corporate bond WKN A2LQP69	Corporate bond WKN A2LQP77
Volume: EUR 125 m	Volume: EUR 125 m
Nominal value per bond: EUR 100,000.00	Nominal value per bond: EUR 100,000.00
Maturity: 5 years to 19 Jun 2023	Maturity: 7 years to 19 Jun 2025
Interest rate: 1.25 %	Interest rate: 1.75 %
Issue price: 99.395 %	Issue price: 99.615 %

In addition, in financial year 2017 a convertible bond in the amount of EUR 262.0m was placed. The key data is shown below:

Convertible bond WKN A2GS3Y
Volume: EUR 262m
Nominal value per bond: EUR 100,000.00
Maturity: 5 years to 1 Sep 2022
Interest rate: 0.625%
Issue price: 100%
Conversion price: EUR 17.6884

The promissory notes for a total of EUR 102.0m issued in financial year 2019 have terms of 5 years (EUR 59.0m) and 7 years (EUR 43.0m). The interest coupon is 1.125% and 1.250% p.a.

The following table shows the maturity of all liabilities as of 31 December 2019:



A total of EUR 312m (2020: EUR 160m; 2021: EUR 113m; 2022: EUR 39m) in fixed-interest bank loans will become due in the next three financial years, or can be refinanced with no breakage fees upon maturity because the fixed-interest rate stipulated in the contract expires. The average interest rate of these bank loans is 3.0% (loans expiring in 2020), 2.7% (loans expiring in 2021), and 2.8% (loans expiring in 2022).

The average term of all bank loans was 8.7 (previous year: 9.3) years as of the balance sheet date; the average term of all financial liabilities was 7.4 (previous year: 8.1) years. The average interest rate on bank loans as at 31 December 2019 was 2.0% (previous year: 2.2%), and that on total financial liabilities was 1.7% (previous year: 1.9%). 99% (previous year: 98%) of total financial liabilities have fixed interest rates

The Management Board expects that all loans maturing in 2020, all of which are in euros, will be renewed as scheduled.

The following provides an abbreviated view of the development of cash flow in the past financial year, based on the presentation in the consolidated cash flow statement:

in EUR m	2019	2018
Cash flow from operating activities	154.4	159.6
Cash flow from investment activities	-206.6	-111.7
Cash flow from financing activities	51.9	-208.1
Cash and cash equivalents at the beginning of the period	89.0	249.2
Cash and cash equivalents at the end of the period	**88.7**	**89.0**

The main value drivers in operating cash flow are higher rental income and lower financing costs. The area of investments especially reflects the acquisitions and modernisation activities of the past financial year. Cash flow from financing activities mainly includes the results from the issuance of promissory notes as well as the assumption/drawing down and repayment of bank loans.

As of the balance sheet date, the Group had the following freely available cash and cash equivalents, which are also shown in this amount in the consolidated cash flow statement:

in EUR m	12/31/2019	12/31/2018
Cash and cash equivalents according to consolidated balance sheet	91.3	91.7
Cash and cash equivalents not available at balance sheet date	-2.6	-2.7
Cash and cash equivalents as per consolidated cash flow statement	**88.7**	**89.0**

In addition, TAG has available credit lines totalling EUR 141.15 m at various banks (previous year: EUR 106.5m). As of 31 December 2019, EUR 0.0m had been drawn down (previous year: EUR 0.0m).

Overall assessment of the economic situation

As in the previous year, in FY 2019 TAG was again able to achieve excellent results in its key operational indicators, i.e. rental growth and vacancy reduction. In addition, the residential portfolio was expanded thanks to the successful acquisitions in FY 2019. At EUR 160.6m, FFO I was well above the previous year's level of EUR 146.5m (10% increase); FFO I per share rose to EUR 1.10 after EUR 1.00 in 2018. At EUR 20.45, NAV per share was well above the level of EUR 17.32 at 31 December 2018 (18% increase).

The earnings and asset position thus continues to be positive and rising. TAG has sufficient liquidity and is financed for the long term.

REPORT ON THE SEPARATE FINANCIAL STATEMENTS OF TAG IMMOBILIEN AG IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE

Fundamentals of the Company

TAG Immobilien AG (the 'Company' in the following) is the parent company in the Group. It primarily functions as a management holding company and performs all material central functions with its employees. The separate financial statements of TAG Immobilien AG are prepared in accordance with the provisions of the German Commercial Code for large corporations.

Management system

For TAG Immobilien AG as an individual company, the net profit for the year under German commercial law is also used as a key performance indicator, which is calculated annually in the annual financial statements. The adjusted net profit for the year, within the meaning of the key performance indicator, is calculated excluding results from control and profit transfer agreements with subsidiaries and excluding non-recurring effects. This is particularly relevant for the calculation of the distributable net profit, as it must be ensured that the Company not only has sufficient liquidity but also sufficient distributable results under commercial law for the dividend to be paid in the following year.

Business performance

TAG Immobilien AG acts as a holding company and generates revenues from agency services for the entire Group. In addition, it receives income from its subsidiaries' equity interests and generates interest income by financing the operating activities of its subsidiaries. To this end, funds raised by means of external financing and capital increases are passed on to Group companies.

In contrast, the Company's operating real estate business is not of material importance. Besides a boarding house in Leipzig, the real estate portfolio as at 31 December 2019 still includes 71 apartments in Riesa, which were acquired in the 2018 financial year. The majority of the operating business within the Group is conducted by subsidiaries.

Results of operations, financial position and net assets in the annual financial statements of TAG Immobilien AG

Results of operations

TAG Immobilien AG's results of operation are largely determined by its holding function and by the centralisation and management of resources deployed across the Group. Most of the employees' employment contracts are pooled in the parent company and are allocated to the subsidiaries by means of intra-group cost allocations. This results in both high personnel expenses and high revenues.

The Company generated net income of EUR 66.4 m in financial year 2019, compared to EUR 27.3m in financial year 2018. This increase in net income was primarily due to higher income from control and profit transfer agreements with subsidiaries, of which EUR 42.3m is attributable to the deferred recognition of results from the previous year. The following table shows the reconciliation of net profit to the adjusted net profit for the year defined in this way, for TAG Immobilien AG as an independent entity:

in EUR m	2019	2018
Consolidated net income as reported in the income statement	66.4	27.3
Income from profit transfer agreements	-72.7	-19.6
Fees for early redemption of bonds	0.0	9.5
Investment income	-1.2	0.0
Income from reversal of provisions for real estate transfer tax risks	-2.3	-6.2
Income taxes and deferred income taxes	1.5	-5.0
Income from debtor warrants	0.0	-3.4
Effect from valuation of purchase price guarantees	0.5	0.6
Result after adjustments	**-7.8**	**3.2**

On this basis, the Company achieved a net result of EUR -7.8m, well below the previous year (EUR 3.2m) after adjustment. This means that the forecast made in the previous year for the HGB annual financial statements, which assumed a significant improvement in earnings in this respect, was not achieved. The main reasons for this were a restructuring of intra-group allocations in the 2019 financial year, and significantly lower interest income than expected due to falling financing costs for loan receivables from subsidiaries.

Revenues declined from EUR 47.9m in 2018 to EUR 42.9m in the financial year. Of this amount, EUR 42.5m (previous year: EUR 47.7m) is attributable to the allocation of costs within the Group.

The decline in other operating income from EUR 11.5m to EUR 3.6m relates primarily to a lower release of provisions. In the previous year, EUR 6.2m of a provision for real estate transfer tax risks from previous years was released, while the remaining provision of EUR 2.3m was released in the 2019 financial year. In addition, the previous year included income of EUR 3.4m from a debtor warrant with an affiliated company.

Personnel expenses rose from EUR 34.6m to EUR 37.8m in the financial year. This is mainly due to ongoing salary increases and the increase in employee headcount as part of the Company's growth.

At EUR 2.1m (previous year: EUR 2.1m), amortisation of intangible assets and depreciation of property, plant and equipment remained unchanged and mainly related to ERP software.

At EUR 20.5m (previous year: EUR 18.1m), total other operating expenses were up on the previous year. This includes legal and consulting costs, including IT consulting costs, of EUR 5.3m (previous year: EUR 4.2m), business premise rentals of EUR 3.4m (previous year: EUR 2.6m) and IT costs of EUR 1.7m (previous year: EUR 1.7m). Expenses from currency translation amounted to EUR 0.5m in the financial year (previous year: EUR 0.0m).

In 2019, TAG Immobilien AG generated income of EUR 72.7m (previous year: EUR 19.6m) from control and profit transfer agreements. The EUR 53.1m year-on-year increase is initially due to the termination of two profit transfer agreements as of 31 December 2018, as a result of which a profit of EUR 42.3m was not recognised until 2019, with a delay. Income from control and profit transfer agreements also includes pro rata income of EUR 3.4m from the sale of a large portfolio during the financial year.

In the year under review, net interest income increased to EUR 8.0m (previous year: EUR -1.9m). Interest income from affiliated companies decreased to EUR 17.4m (previous year: EUR 22.1m) and income from guarantee commissions from affiliated companies decreased to EUR 0.0m (previous year: EUR 3.4m). Interest expenses dropped from a total of EUR 27.6m in financial year 2018 to EUR 9.5m. Promissory note loans, corporate bonds and convertible bonds accounted for current interest expense of EUR 6.3m in financial year 2019 (previous year: EUR 11.6m). In the previous year, EUR 9.5m was attributable to a one-time early repayment fee due to the early repurchase of the 2014/2020 corporate bond for EUR 125.0m. Interest expenses to affiliated companies decreased from EUR 6.2m to EUR 3.1m..

Financial position and net assets

Total assets increased by EUR 105.8m to EUR 2,095.6m as of 31 December 2019 (previous year: EUR 1,989.8m). Current assets increased from EUR 1,386.5m to EUR 1,490.0m. The main reason for the increase in total assets was the taking out of a promissory note loan and the related intra-group financing of investments. Cash and cash equivalents at the end of the financial year amounted to EUR 69.4m (previous year: EUR 68.9m).

Shareholders' equity decreased from EUR 1,074.1m to EUR 1,031.2m at the end of 2019. Apart from the EUR 66.4m increase due to the net profit for the year, the dividend distribution for the 2018 financial year of EUR 109.8m had an equity-reducing effect. The equity ratio declined from 54.0% in the previous year to 49.2% as at 31 December 2019.

Tax provisions exclusively comprise provisions for taxes on income. A provision of EUR 2.3m for potential obligations arising from real estate transfer tax risks in previous years was reversed during the financial year.

Other provisions include provisions for bonuses of EUR 1.4m (previous year: EUR 1.3m), costs for outstanding invoices of EUR 2.6m (previous year: EUR 1.3m), provisions for impending losses on purchase price guarantees to minority shareholders of subsidiaries amounting to EUR 2.7m (previous year: EUR 2.2m), and various other provisions totalling EUR 1.5m (previous year: EUR 1.3m).

Overall liabilities increased to EUR 1,054.9m (previous year: EUR 907.0m) and include the corporate bonds, convertible bonds, commercial papers and promissory notes issued by the Company as described above. The main reason for the increase in liabilities is the issuance of promissory notes totalling EUR 102.0m in June 2019, and an increase in liabilities to affiliated companies from EUR 354.7m to EUR 383.3m.

As of the balance sheet date, various banks have granted the Company credit lines of EUR 56.5m (previous year: EUR 41.5m), in addition to insignificant loans for property financing. As of 31 December 2019, EUR 0.0m (previous year: EUR 0.0m) of these had been drawn down. A partial amount of EUR 1.5m (previous year: EUR 1.5m) of the credit lines is secured by land liens.

General statement on the business situation

The company's earnings situation is satisfactory overall. TAG Immobilien AG reports net interest income of EUR 8.0m, after EUR -1.9m in the previous year. On top of this, the Company was able to increase its income from equity interests and profit-and-loss transfer agreements from EUR 19.6m in the previous year to EUR 73.9m, resulting in net profit for the year of EUR 66.4m, up from EUR 27.3m in the previous year.

The Company's equity ratio remains at a healthy level at 49.2% (previous year: EUR 54.0%). The Company has sufficient liquidity and is, in the opinion of the Management Board, competitively financed.

FORECAST, OPPORTUNITIES AND RISK REPORT

Forecast

Projected economic conditions

In 2019 the German economy showed growth for the 10th consecutive year. Gross domestic product increased by 0.6%, albeit below the average pace of the past 5 years. Besides a fundamental economic risk relating to the trade conflicts between the USA, China, and the European Union, economic research institutes such as Ifo, IfW, and the IWH forecast economic growth for the year 2020 as well. The number of employed persons will increase and reach a new record by 2021. Gross domestic product is expected to reach up to 1.1% (ifo, BMWi) for 2020.

In terms of rents, we expect the positive trend of past financial years to continue in 2020, i.e. continued very strong demand for reasonably priced residential space in the regions we do business in.

We also believe that there is no end in sight yet to the very low level of interest rates. In view of the debt levels of some Southern European countries and possible macroeconomic risks due to the upcoming 'BREXIT' and ongoing trade disputes, both the European Central Bank and the capital market will, in our opinion, not be taking any short-term steps leading to a significant rise in interest rates. This also applies to the financing margins, especially in the area of bank loans, where we do not expect any significant increases either.

With the acquisition of all shares in Vantage Development S.A., which was agreed at the end of financial year 2019 and became legally effective after the reporting date on 13 January 2020, TAG is now also active in the Polish residential real estate market. For 2019, Poland is expected to have a gross domestic product of 4.2%, which is substantially higher than that of the German economy. At the same time, unemployment in Poland continues low, with a figure of 3.5% expected for 2019.

In comparison with the Eurozone and Germany in particular, the Polish market shows significantly higher interest levels in Poland. While German 10-year government bonds were quoted at negative yields for the vast majority of 2019 of about up to -0.7%, the yield of Polish 10-year government bonds were generally quoted between 2% and 3% in 2019 . This was roughly in line with the inflation rate, which is expected to be 2.1% in Poland in 2019.

We do not expect these developments to change significantly in 2020. Poland will continue to be one of the strongest countries in Europe in terms of economic growth, and we expect interest rates to remain significantly higher than in the eurozone.

Group forecast for the 2020 financial year

Our strategy for shareholders focuses on total return per share. In contrast to previous years, growth in absolute numbers is not a priority for TAG, as the group's real estate portfolio of nearly 85,000 units has reached a size that allows us to effectively manage our portfolio. For this reason, in future we will continue to focus even more on optimising the portfolio and effectively increasing our cash flow. Consequently, this means that we will take advantage of attractive opportunities in the market and invest at sites with development potential where we already have a presence, in order to expand and further develop our residential portfolio. However, as always, our strategy when purchasing portfolios is determined by stringent capital discipline. At the same time, we will continue to take advantage of selective sales opportunities if they improve the profitability of the portfolio as a whole.

In the medium term, i.e. within the next three to five years, 8,000 to 10,000 apartments are to be acquired or built for the rental portfolio in Poland. In addition, there will be future cash proceeds from the sale of apartments to owner-occupiers in Poland as well, albeit on a smaller scale. In the financial year 2020 the management board believes this will constitute nearly all of the business activities, as initial rental income from the properties currently under construction is not expected before the 2021 financial year. Given this situation, TAG's FFO I in financial year 2020 will not be influenced by acquisitions in Poland. For this reason, the forecast refers solely to the portfolio in Germany. In terms of NAV, we do not expect any material effects from the business activities in Poland in 2020. The NAV should show a slightly more positive trend as the current sales business in Poland is profitable and these profits will tend to increase the NAV. However, due to the currently still small size of the business in Poland, this will not be significant from the Group's perspective. Against this background, the same goes for the LTV debt-equity ratio. Moreover, the total transaction price of PLN 558.5m (EUR 131.9m) already paid in November 2019 is already reflected in the LTV at the 31 December 2019 reporting date.

Based on the good operating performance and the further reduction in financing costs, we predict the following for the 2020 financial year, in each case excluding the results from changes in the fair value of investment properties and from the valuation of investment properties and the valuation of financial derivatives excluding deferred tax effects from the use of tax loss carryforwards, and on an undiluted basis:

- FFO (FFO I, i.e. without sales) of EUR 168m to EUR 170m (2019: EUR 160.6m), or EUR 1.16 (2019: EUR 1.10) per share;
- EBT of between EUR 164m and EUR 166m (2019: EUR 162.7m), or EUR 1.13 (2019: EUR 1.11) per share; and
- NAV per share of EUR 20.60 to EUR 20.80 (31 December 2019: EUR 20.45), after taking into account a dividend payout of EUR 0.82 (previous year: EUR 0.75) per share.

The expected year-on-year increase in FFO from EUR 7.4m to EUR 9.4m for the 2020 financial year is mainly based on the assumption of

- higher rental income from c. EUR 3.5m to EUR 4.5m (mainly due to rising rents),
- an improved result from services from c. EUR 0.5m to EUR 1.5m,
- higher personnel expenses from c. EUR 2.0m to EUR 3.0m (partly due to the expansion of the business to Poland)
- positive effects from lease accounting under IFRS 16 of about EURm 2.4, which will be no longer elminated from the FFO from 2020, and
- lower financing costs from c. EUR 2.0m to EUR 3.0m

No further acquisitions or sales are assumed for the purposes of the forecast.

The dividend per share for the 2020 financial year is to rise to EUR 0.87 (for 2019: EUR 0.82); as in the previous year, this corresponds to a pay-out ratio of 75% of the planned FFO I.

We expect vacancy across the Group’s residential units, again excluding any further major acquisitions and sales, to decrease further to between 4.3% and 4.5% (1 January 2020 including the acquisitions that became effective at 31 December 2019: 4.9%). As for rent, we expect to see ‘like for like’ annual growth of around 2.0% to 2.5% (2019: 2.4%), including the effects of vacancy reduction.

We therefore expect the very positive economic performance of previous years to continue in 2020. From our point of view, there are significant forecast uncertainties with regard to effects from additional purchases and sales not included in the FFO forecast. Future acquisitions of property portfolios would tend to lead to an increase in the FFO forecast, while more substantial disposals would lead to a reduction in the FFO expected for 2020.

By their very nature, forward-looking statements are also subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties are tied to factors that TAG cannot control, influence or accurately assess. This is the case, for example, when it comes to future market and economic conditions, the behaviour of other market participants, the ability to successfully integrate acquired companies and realise expected synergy effects, and government tax legislation procedures.

Forecast of TAG Immobilien AG as a single entity for the financial year 2020

Excluding the results of control and profit transfer agreements with subsidiaries and non-recurring effects (which in 2019 mainly included non-recurring income from the reversal of provisions), we expect TAG Immobilien AG to report an adjusted net loss of between EUR 7.0m and 9.0m for the year in its single-entity financial statements prepared in accordance with the German Commercial Code (HGB) for financial year 2020, i.e. roughly on a par with 2019.

OPPORTUNITIES AND RISK REPORT

Risk management

TAG has implemented a central risk management system designed to identify, measure, control and monitor all of the material risks to which the Group is exposed. This risk management system is designed to reduce potential risks, safeguard assets, and support the TAG Group’s continued successful development. All organisational units within TAG are obliged to comply with the requirements of the risk management system. Updating and developing the risk management and compliance system is seen as an ongoing management task to which top priority is assigned.

The Management Board of TAG is responsible for ensuring a consistent and appropriate risk management process. In order to identify risks, TAG monitors the overall economy, as well as developments in the financial services and real estate sectors. Internal processes are also monitored constantly. On account of the continuously changing conditions and requirements, risk identification is an ongoing task that is integrated in the organisation and in operational processes. All organisational units are always required to identify risks likely to arise from present or future activity. Regular meetings, controlling discussions, department meetings, one-on-ones and queries also help to identify risks.

The Management Board is responsible for liquidity risk management, and has established an appropriate model for managing short-, medium- and long-term finance and liquidity requirements. The Group controls liquidity risks by maintaining reasonable reserves and credit lines at banks, and by continually monitoring forecast and actual cash flows and reconciling the maturities of financial assets and liabilities.

Group Controlling supports the Management Board and the organisational units required to submit reports by means of recurring internal report controls. Risks are regularly recorded and evaluated, and countermeasures already taken are reviewed and followed up on. Moreover, as needed the Management Board is immediately notified of all material risks and developments, so that it can promptly take the requisite steps.

TAG has an internal auditing department that additionally monitors risk management and compliance with the internal control system. As an independent unit, it regularly reviews the Company’s business processes, installed systems, and implemented checks. The head of each organisational unit is responsible for assessing risks. Each risk must be evaluated in terms of its potential loss and its probability of occurrence, so as to identify the extent of TAG group’s exposure. Individual risks are to be evaluated in terms of their reciprocal effects with other risks.

Individual risks with regard to their future development

Overview

The various individual risks considered by the Management Board to be of material importance to TAG are summarised as follows:

- Market risks
  - Economic and sector risks
  - Regulatory and political risks
- Performance risks
  - Rental risks
  - Portfolio valuation risks
  - Project development risks
- Financial risks
  - Liquidity risks
  - Interest risks
- Other risks
  - Legal risks
  - Tax risks

Economic and sector risks

The German real estate market depends on macroeconomic developments and the demand for real estate in Germany. Demand for real estate is influenced, in particular, by demographic trends, the job market, private debt levels and real incomes, as well as the activities of international investors in Germany, and is largely dependent on the regional situation. One key factor is the tax environment in which taxation instruments such as special depreciation, income tax and real estate transfer tax exemptions, as well as gift and inheritance tax benefits, influence the demand for real estate.

TAG is exposed to intense competition. Especially for the acquisition of real estate portfolios, it competes with real estate companies, real estate funds, and other institutional investors, some of which may have considerable financial resources or other strategic advantages at their disposal. This means that there is a risk of TAG being unable to assert itself in the face of this competition, or to sufficiently set itself apart from the competition and hence cannot realise planned acquisitions.

With regard to future maintenance, construction and modernisation measures, there is a risk that in many cases the craftsmen and construction industry currently lacks sufficient capacity to swiftly fulfil the orders. In the context of TAG's planned maintenance and modernisation measures, this may lead to delays and, as a result of high demand, to unscheduled price increases.

TAG's business focus on specific regions within Germany can also lead to a dependency on regional market developments and expansion risks. This applies in particular to the Eastern German states, where the majority of TAG's real estate assets/holdings are located.

TAG's strategic concentration on dynamic urban centres and selected other locations limits these risks. Select purchases of residential real estate also serve to strengthen its concentration on a high-quality, high-yield portfolio. To prepare for acquisition decisions, general and regional market developments are permanently monitored, and the properties on offer are meticulously analysed with regard to their condition, location and rents. To assess potential income, synergies and rental and cost risks, potential transactions are subjected to a thorough due diligence process. These factors are evaluated in the same way for TAG's entire real estate portfolio and are also considered in potential sales of inventories.

The economic and sector / environment and industry risks described are regarded as low. Even though we believe that the likelihood of the risk of delays and higher prices due to capacity bottlenecks in maintenance and modernisation measures is high, TAG's activities in this area are not very extensive compared with the industry as a whole. Besides, this risk has already been countered for several years by the further expansion of the Group's in-house craftsman services. If the risks in question were to occur, this would mean that the expected development described in the forecast report presented above (section "Forecast for the 2020 financial year"), in particular FFO I and EBT, would not be achieved.

In comparison with the German real estate market, we believe that the competitive situation in Poland is less intense. In particular, the rental market for apartments targeted by TAG is currently hardly being addressed by institutional investors. By contrast, numerous project developers in Poland are implementing traditional property development projects in which apartments are built and subsequently sold to private individuals (mostly as owner-occupiers). Here, too, this is currently leading to rising land prices and bottlenecks in the availability of construction companies and craftsmen.

Regulatory risks

TAG is exposed to general risks arising from changes in the regulatory or legislative environment. Besides tax legislation, such regulatory changes may affect general tenancy laws in particular, but also construction, employment, and environmental law. As TAG's activities are confined to Germany and such changes do not normally occur without warning or unexpectedly, there is generally sufficient time to adjust.

In particular with regard to future tenancy law, there is currently a risk of significant adverse changes for landlords, some of which have already been implemented into law. At the end of 2018, for example, in addition to increased information requirements for the landlord with regard to 'rent control' within the meaning of Section 556d of the German Civil Code (BGB), further restrictions were resolved with regard to the modernisation levy in accordance with Section 559 of the German Civil Code (BGB). These restrictions provide for a reduction in the percentage of modernisation costs to be borne by the tenant from previously 11% to currently 8%, as well as certain cap limits on the subsequent rent increases. In February 2020 an extension of the tightened rent control ('rent brake') was adopted. This means that tenants can demand a retroactive refund of overpaid rent if the rent control is breached. At the same time, an extension of the reference periods for qualified rent indexes in accordance with § 558d BGB from four to six years was prepared, which in the current situation of annually rising rents would lead to an increased inclusion of older rental agreements with lower rents in these rent indexes, so that the resulting new rent would be lower or new rental contracts would lead to rent increases at a later date.

The risk of adverse changes in tenancy law is classified as low. Although here too the probability of occurrence is high, the economic impact for TAG is not significant, as far as can be seen at present, since the Group's investment focus is neither on rent increases through modernisation levies nor on sharp rent increases in metropolitan areas, which are particularly dependent on 'rent control' and the development of the rent indexes. All other regulatory and political risks are considered to be low. Such developments could have an adverse effect on the expectations presented in the forecast report, especially regarding the development of rents and hence of FFO I and EBT.

The risk of disadvantageous changes to tenancy law became even more concrete in the 2019 financial year. In June 2019, for example, the Berlin Senate decided not to permit any further rent increases for existing apartments in the state of Berlin within the next five years, with only few exceptions ('rent cap'). Although similarly concrete resolutions are not currently in place in other cities and federal states, and there are in fact doubts about the legal admissibility of this draft law, there is support in the political discourse for this and similar considerations, all of which are aimed at a stronger limitation of rent increases in future.

In our view, however, the current discussions are essentially focused on two areas, namely the sharp rise in new rents in large cities in recent years and extensive rent increases as a result of modernisation measures. In this connection, many tenants fear that current or future rents will no longer be affordable. This is to be counteracted by tighter rent regulation. However, TAG's investments are not being made in Germany's major cities but deliberately in 'B and C locations', i.e. in the wider catchment areas of major cities and in medium-sized towns. For example, TAG only owns around 300 apartments in the federal state of Berlin. The bulk of our residential portfolio (more than 70%) is located in Eastern Germany. TAG's biggest locations are the cities or regions of Salzgitter, Gera, and Erfurt. At these locations and in these regions, rents in relation to household income are affordable in our view. For example, according to our latest Housing Market Report for Eastern Germany 2018, the housing cost burden (rent including utilities in relation to household income after taxes and social security contributions) are at 19% in Gera and 22% in Erfurt. In Salzgitter, the housing cost burden is around 17%. Modernisation programmes for existing tenants are only carried out to a very limited extent (in the last financial year 2019, as in the previous year, they contributed only 0.1% to total rental growth); the main focus of investment is on reducing vacancy.

With this in mind, we do not anticipate that the discussion about tighter regulation, in particular a complete freeze on rent increases, will affect our locations significantly. Although we consider the probability to be low, there is nonetheless a risk that TAG, too, will not be able to increase its rents in the future or will only be able to do so to a limited extent in the event of stricter regulation of rents across Germany. Although this would not endanger the survival of the Group, it could have significant disadvantages for the future development of rents (like-for-like rental growth), FFO, EBT, and NAV as presented in the forecast.

Unlike Germany, Poland does not have an independent tenancy law. Rental agreements are subject only to the provisions of general civil law, so the owner and tenant are largely free to agree on their own terms. Even if regulations of the rental housing market are not currently being discussed and are unlikely in our opinion, it cannot be ruled out that regulatory initiatives will be launched in Poland in later years, provided that the trend of rising rents observed in recent years continues.

Rental risks

Substantial vacancy and a loss of or reduction in rental income can lead to a loss of income and would cause additional costs that might not be transferable to tenants. An increase in vacancy may result from lower demand for housing in the future, for example if the number of households decreases in individual regions, be it due to demographic developments or as a result of relocations or job cuts by the region's major employers.

In the residential segment, a standard credit check is performed on potential new tenants. In addition, one of TAG's strategic goals is to reduce vacancy through active asset and property management, thereby lowering vacancy costs while harnessing available rental potential. TAG uses active portfolio management, extending through to effective tenant relationship management to ensure long-term leases. At the same time, receivables management ensures that payments are received continually and can help to avert defaults with minimum delay.

Although there are always individual risks of default, we consider it to be marginal on the whole. In total, impairment losses on rent receivables, including the separately disclosed impairment losses in net income from services, of EUR 4.4m (previous year: EUR 4.4m) were recognised in the 2019 financial year. Based on the net actual rent of EUR 315.0m (previous year: EUR 302.2m), this corresponds to a bad debt ratio of 1.4% (previous year: 1.5%). As in the previous year, no rent losses were recorded in the single-entity financial statements of TAG Immobilien AG itself

Future letting risks also depend on population trends. In terms of their probability of occurrence, they are classified as low due to the fact that the high demand for residential space is expected to continue. An increase in the vacancy rate would have a negative impact on rents and hence especially on FFO I and EBT. In such a situation, it would not be possible to meet the expectations set out in the forecast for the 2020 financial year.

In Poland, too, TAG will focus primarily on the letting of flats. In contrast to Germany, the rental housing market in Poland is much smaller. The ownership ratio in Poland is currently around 85%, while in Germany this ratio is only around 50%. Against this backdrop, there is a risk for TAG that the apartments offered for rent in Poland in the future will not encounter sufficient demand if the ownership ratio does not decline or actually increases further, even in the large cities in Poland targeted by TAG. In combination with a further increase in new construction activity, this could result in oversupply.

However, this risk is regarded as low. The market for apartment rentals in Poland has increased significantly in recent years, as can be seen from the steady rise in rents. In fact, we believe that, on the contrary, the Polish rental housing market is characterised by a supply deficit. It is considered one of the least saturated residential markets in Europe. In addition, the absolute size of the Polish market with around 38 million inhabitants, and favourable demographic developments, support the expectation that there will continue to be a growing demand, not only for owner-occupied but also for rented apartments going forward.

Portfolio appraisal risks

The market value (fair value) of the real estate shown in the consolidated financial statements is based on calculations that are currently performed twice a year by independent, accredited appraisers. These market values depend on various factors, some of which are objective – such as macroeconomic conditions, or prevailing interest rates – as well as other discretionary exogenous factors such as rental levels and vacancies. In addition, encumbrances in the existing portfolio, such as lead pipes, can influence the appraisal.

The appraiser also takes into account discretionary, qualitative factors such as the location and quality of the property, as well as the achievable rental income. This may result in changes in the fair values reported, resulting in high volatility for Group net income. It does not, however, have any direct impact on TAG's liquidity.

The assumptions used in valuing the properties are made by the independent appraiser based on their professional experience and are subject to uncertainty. Please refer to the section "Notes to the Balance Sheet – Investment Properties" in the Notes to the Consolidated Financial Statements for information on the effects of possible fluctuations in the valuation parameters, not taking into account potential interdependencies between the individual parameters.

Even if we do not expect this, at least not for the forecast period 2020, rising interest rates may also result in value declines in the portfolio's valuation, as in such a situation, investors' return expectations and thus the capitalisation interest rates used in the valuation model should also rise, at least in the medium term. Corresponding value declines in the portfolio's valuation can occur in the event of a decline in rents or an increase in vacancies.

Portfolio valuation risks, however, are classified by us as low due to the continued strong demand for apartments, in conjunction with insufficient new construction activities and the further increase in rents expected as a result. If balance sheet losses occur, they do not affect liquidity and in many cases (e.g. with regard to the corporate bonds and convertible bonds issued by TAG) do not impair compliance with credit agreement conditions. However, the expectations outlined with regard to the development of the NAV might not be met.

In Poland, moreover, risks arising from an incorrect assessment of the still relatively young and small market for residential lettings could lead to valuation risks. Moreover, because of the comparatively young history of this market, it may only be possible to estimate comparative parameters for the valuation within wider ranges.

Project development risks

Starting in financial year 2020, TAG is also engaged in the Polish real estate market as a project developer, via its stake in Vantage. On the expense side, this may involve material risks if construction projects entail unplanned costs or take longer to execute than planned. Although this has not been observed in Vantage's projects in recent years, such cost risks are inherent in the project development business. On the earnings side, there is a risk of incorrect rental or sales price calculations, especially if the time between the planning and completion of the project is longer than planned.

Liquidity risks

TAG's business activities expose it to various risks of a financial nature, especially liquidity and interest-rate risks. In accordance with the guidelines issued by the Company's managing bodies, risk management is carried out by the central finance department. Potential default risks in connection with the investment of the Group's liquidity, derivative financial instruments and other financial transactions are minimised by monitoring the counter-party risk and selecting investment-grade financial institutions.

For liquidity planning and liquidity management, both short- and medium-term, the following instruments are used for reporting to the Management Board, and the current business transactions are mirrored with the planning data: a daily liquidity report summarising all accounts; monthly liquidity planning for the next twelve months; and medium-term liquidity planning for the next three years.

Moreover, TAG is dependent on securing external capital at reasonable terms to fund its ongoing business and acquisitions. A crisis in the international financial markets could make it substantially more difficult for TAG to raise the necessary funds and could lead to liquidity problems. Should this lead to problems in servicing ongoing loans, lenders could institute foreclosure proceedings, and such distress sales would lead to considerable financial disadvantages for TAG. TAG is using current market conditions in order to refinance long-term loans on favourable terms in order to mitigate this risk.

The Group has loans totalling EUR 1,571.2m (previous year: EUR 1,425.5m), for which the banks have specified financial covenants regarding capital service ratios and equity/debt ratios. If any of these covenants are breached, premature loan repayments may become necessary. As in the previous year, TAG Immobilien AG itself has no loan liabilities with covenants in its separate financial statements.

Similarly, the promissory notes issued are subject to certain terms and conditions that, if breached, constitute a liquidity risk. In the event of any breach of the terms of issue, e.g. a change of control, these corporate bonds – as well as the loans referred to in the section entitled 'Disclosures in accordance with Section 289a and Section 315 (1) of the German Commercial Code may be subject to a right of premature termination.

The liquidity risks are deemed to be low. TAG has sufficient liquid assets and unused credit lines with banks. In addition, most of the acquisitions of financial years 2017 to 2019 have not yet been refinanced, so that additional liquidity could be raised by taking out new bank loans if required.

Interest rate risks

The Group's activities are subject to risks arising from changes in interest rates. The vast majority of bank loans are concluded only with fixed interest, either through a directly agreed fixed interest rate, or through a variable interest rate that is then converted into a fixed interest rate using a derivative financial instrument (usually interest rate swaps). At the reporting date, bank loans with a fixed interest rate accounted for 98% of the total lending volume (previous year: 98%). As in the previous year, all corporate or convertible bonds have fixed interest rates.

Against this backdrop, an interest rate risk exists mainly with regard to the future refinancing of expiring loans, and with new loans from further acquisitions. Rising financing costs, particularly in the field of long-term financing that is relevant to TAG, would negatively impact the profitability of acquisitions, and TAG's future results and cash flows.

The Group enters into long-term fixed-rate loans in order to minimise interest rate risks. There are currently no interest rate derivatives (e.g. swaps). Interest rate risks are classified as low in the financing area. This applies in particular given the Group's long-term financial liabilities at fixed interest rates, which have an average term of 7.4 (previous year: 8.1) years as of the balance sheet date and of which 99% (previous year: 98%) have fixed interest rates.

Interest rate risks can also be classified as low at the level of TAG Immobilien AG's separate financial statements. All financial liabilities have fixed interest rates and, as of the balance sheet date, have remaining maturities of around 2.8 years (convertible bonds), around 3.5 to 5.5 years (corporate bonds) and around 4.5 to 6.5 years (promissory notes) for the main borrowings.

Legal risks
TAG is party to various legal proceedings whose outcome is as yet uncertain. They include disputes about construction defects, rental matters and administrative proceedings.

There are legal risks associated with the Group's past activity in the property development business. As the pro-consumer and pro-buyer judicature often does not consider final inspections of buildings carried out years ago by purchasers to be effective, claims by purchasers of construction defects years later and after the usual warranty periods of five years are possible. A number of these proceedings are still pending in the courts, for cases where works were completed over ten years ago. There is also the risk of claims of environmental contamination or hazards arising from construction materials warranty claims in connection with the sale of real estate, which may exceed the corresponding rights of recourse available.

Occasionally claims are asserted against TAG subsidiaries by purchasers in connection with lost tax advantages, compensation and, in some cases, the rescission of contracts entered into many years ago. Appropriate provisions have been created to cover risks in connection with legal disputes, claims for damages, and warranty claims.

The legal risks are assessed as high, especially with regard to the probability of their occurrence. In this context, provisions of EUR 3.0m (previous year: EUR 4.3m) were formed as of the balance sheet date, which could lead to outflows of liquidity should a given risk materialise. Provisions of EUR 0.2m (previous year: EUR 0.2m) were recognised in the separate financial statements of TAG Immobilien AG. Beyond this, the occurrence of these risks would have a negative impact on EBT and NAV and the expectations presented with regard to these key figures might not be met if the actual utilisation exceeds the provisions formed.

Tax risks
Some of TAG's tax structures are complex. Various different taxable entities (tax groups and taxation at individual company level), and legal forms exist within the Group. In particular, restrictions on 'interest barriers' and the provisions of the 'prerogative of extended trade tax reduction' regularly become very relevant.

Due to legal uncertainties in connection with determining the equity ratio for interest barrier purposes, it cannot be ruled out, for example, that the tax authority denies at least a partial deduction of operating expenses from interest expenses. The use of the trade tax reduction for income from long-term real estate leasing, which is also relevant for many Group companies, is subject to restrictive conditions, some of which are also subject to legal uncertainties and which, in the event of divergent treatment by the tax authority, would lead to a trade tax liability for the relevant income. In addition, the tax-neutral allocation of capital gains to reserves (e.g. in accordance with Section 6b of the German Income Tax Act), and the option for transfer-tax-free acquisitions of shares in real estate property companies, were significant for the Group's tax burden in past years.

Provisions amounting to EUR 4.0m (previous year: EUR 4.0m) have been formed as of the balance sheet date for the above-mentioned risks, which are classified as low to medium, and which could lead to corresponding outflows of liquidity if a given risk materialises and, if the provisions formed prove to be insufficient, could jeopardise the attainability of the FFO I, EBT and NAV forecasts.

Additional risks from the perspective of TAG Immobilien AG as the Group holding company
The shares in affiliated companies reported in the separate financial statements are largely dependent on the results of the respective subsidiary. The valuation risk in connection with shares in affiliated companies therefore also extends, in particular, to the property portfolios held by the subsidiaries. Please refer to the comments in the section "Portfolio valuation risks" for information on the relevant valuation risks in the real estate portfolio. In addition, valuation risks also exist with regard to receivables from affiliated companies. Furthermore, risks could arise from letters of comfort or other assumptions of liability (guarantees and loss compensation obligations from control and profit transfer agreements) in favour of affiliated companies.

Overall, the above-mentioned risks are classified as low due to the continued strong earnings situation of the subsidiaries, which results from the continuing high demand for apartments, coupled with insufficient new construction activities, and the expected further increase in rents, as well as the still-attractive interest rate environment.

Opportunities for future development

TAG's portfolio is spread across various locations where growth potential still exists and can be realised. Thanks to the Group's decentralised structure with its headquarters in Hamburg and key offices in the currently ten LIM regions, TAG is of the opinion that it can identify market trends at an early stage and address them more quickly than competitors are able to. A good variety of apartment sizes and micro-locations within the regions, along with modern, efficient tenant relationship management, enable a consistent generation of attractive returns and rising cash flows from the portfolio. Moreover, TAG group's core competency is active asset and property management, which in the past has been instrumental in reducing vacancies, thereby boosting rental income and lowering vacancy-related costs. In the years ahead, vacancy reduction and the realisation of rent-raising potential within the portfolio will continue to form the basis for further organic value increases.

Apart from implementing our growth strategy and improving our capital market position, TAG also has a solid funding structure. The Group is financed long-term. TAG's business model – in particular its active asset management, which is reflected in continuous vacancy reduction – is well established on the capital market and with the banks. All these facts form the basis for a successful implementation of the Group's strategy and will continue to ensure that TAG is able to raise the funding it needs, in the capital market as well as from banks.

Concrete opportunities for future development exist in particular if the current high demand for residential property in small and medium-sized towns and in the vicinity of large metropolitan areas continues in the years ahead. Given the recent positive demographic developments, including in many Eastern German cities, and the low number of new construction projects, the prospects for this are good. We believe that this will continue to contribute to rising rents and falling vacancy rates in the future as well.

With regard to the forecasts already presented, there is therefore a chance that the planned figures for the 2020 financial year for rents, vacancies and thus also FFO I and EBT will be exceeded. Furthermore, higher rents and a continued low interest rate level could have a positive effect on property valuation and thus on the planned NAV.

TAG does not anticipate any real estate valuation effects or portfolio acquisitions in its business planning. Thus, valuations and portfolio acquisitions will result in opportunities of exceeding the forecasts.

With its acquisition of Vantage, TAG has additionally entered the Polish residential real estate market. The growing Polish residential real estate market is the target of a regional extension of TAG's business model, which focuses on strong cash returns here as well. In the medium term, i.e. within the next three to five years, 8,000 to 10,000 apartments are to be acquired or constructed in Poland for the rental portfolio. Beyond this, there will be cash proceeds from the sale of apartments to owner-occupiers in Poland in future as well, albeit to a lesser extent. However, in the 2020 financial year, this will constitute virtually the entirety of the business activity, as initial rental income from properties currently under construction is not expected before the 2021 financial year. Accordingly, TAG's FFO I will not be affected by acquisitions in Poland in 2020.

Overall assessment

In line with the stable performance during the reporting period, the overall risk situation has not changed fundamentally compared with the previous year. Using the monitoring system described above and the available instruments, TAG Immobilien AG took the necessary measures to identify and counteract, at an early stage, risks that could threaten the existence of the Company.

At this time, the Management Board is unaware of any risks that could threaten the existence of the Company. The Company is convinced that it will continue to be able to make use of the opportunities and challenges arising in the future without exposing itself to undue risk.

INTERNAL MONITORING AND RISK MANAGEMENT IN CONNECTION WITH GROUP ACCOUNTING

The structure of TAG's accounting-related internal monitoring system comprises all processes that are geared to the effectiveness and efficiency of business operations in order to ensure the correctness of accounting, also in compliance with the statutory and other rules and regulations applicable to the Company.

All of the Group's key processes are defined and documented in a uniform process manual. These processes include preventive, monitoring and detection security and control measures. These would include measures such as IT-supported and manual approval processes, functional separation, access restrictions, and authorisation concepts in the IT landscape.

Another essential element of TAG's internal monitoring system derives from the largely centralised organisation of its accounting system. All of the Group's financial statements are prepared by its own employees, for the most part at the Group headquarters in Hamburg. Although parts of the accounting are handled locally – e.g. payroll accounting by an external service provider, and rental accounting by the Group's shared service centres – the Group's Accounting's financial accounting department bears the final responsibility.

In the financial year under review as in the previous year, the Accounting department used a uniform ERP system (SAP Promos) throughout the Group to prepare the financial statements. External service providers are involved in preparing the quarterly and annual financial statements. For instance, independent appraisers investigate reports on the fair value of the real estate. The fair value of derivative financial instruments, are also calculated with the assistance of external experts, as are pension provisions. The results of the expert opinions are analysed in-house and their quality assured before they are included in the financial statements.

Key real estate sector indicators, funding and liquidity developments, as well as the financials of the individual companies, the subgroup and the Group as a whole, are checked by Controlling and reconciled with the budgets and prior periods. The most important findings from these figures are submitted to the Management Board in a monthly report and are also forwarded to the Supervisory Board.

Within Group Accounting, the internal monitoring system is supplemented by the Quality Assurance team. It reviews the completeness and accuracy of information, e.g. in the preparation of quarterly and annual financial statements, the assessment of facts, and the performance of process and plausibility analyses.

Based on an audit plan, process-independent audits are continually carried out by the Internal Audit department, which reports directly to the Management Board. Internal Audit uses a systematic, purposeful approach to assess the effectiveness of the risk management system, and the management and monitoring system, including controls. In particular, its tasks include investigating, assessing and monitoring the adequacy and effectiveness of the internal monitoring system, including the accounting system.

DISCLOSURES IN ACCORDANCE WITH SECTION 289A AND SECTION 315A (1) OF THE GERMAN COMMERCIAL CODE

TAG Immobilien AG is a capital market-oriented Company as defined in Section 264d of the German Commercial Code. Therefore, information on equity, the equity structure, and voting rights are required in accordance with Section 289a and Section 315a (1) of the German Commercial Code. The information provided in the following is based on the conditions that existed as of 31 December 2019:

Composition of share capital

The Company's share capital stands at EUR 146,498,765.00 as of the reporting date, unchanged from the previous year. As in the previous year, it is divided into 146,498,765 shares. The computed pro rata amount of share capital attributable to each share is EUR 1.00. All shares carry the same rights. Each share entitles the owner to one vote; the dividend entitlement is determined by the number of shares held.

Limitations on voting rights and transfer of shares

Restrictions on voting rights may arise from the provisions of the Companies Act. For example, under certain circumstances, shareholders are prohibited from voting as per Section 136 (1) of the German Stock Corporation Act (AktG). In accordance with Section 71b of the AktG, the Company is not entitled to exercise any voting rights resulting from the currently 161,815 treasury shares (previous year: 177,115) that are earmarked for issue as employee shares and for long-term variable remuneration of the Management Board. The Company's Articles of Association do not provide for restrictions on voting rights. The Company's shareholders are not limited by the law or by the Articles of Association when it comes to the acquisition or sale of shares. The Management Board is not aware of any contractual restrictions on voting rights or the transfer of shares

Direct or indirect voting shares exceeding 10%

The Company is aware of only one direct or indirect holding of more than 10% of its voting rights at the reporting date, based on reports submitted to it pursuant to the German Securities Trading Act (WpHG), i.e. that of The Capital Group Companies Inc., USA. The Company has not been notified of other direct or indirect interests in TAG's capital that reach or exceed 10%, nor is it aware of any.

Shares with special rights conferring powers of control

There are no shares with special rights conferring powers of control.

Voting right controls on shares held by employees

Employees who own capital shares in TAG exercise their control rights like other shareholders in accordance with the statutory provisions and the Articles of Association. There is no indirect control of voting rights.

Appointment and dismissal of members of the Management Board, amendments to the Articles of Association

The appointment and dismissal of members of the Management Board is carried out in accordance with Sections 84 and 85 of the German Stock Corporation Act and the Company's Articles of Association. Management Board members are appointed by the Supervisory Board for a maximum term of five years. A reappointment or extension of the term for a maximum of five years is permitted.

According to the Articles of Association, the Supervisory Board may appoint a Chairman and a Deputy Chairman. The Supervisory Board has not exercised this power to date. The Management Board consists of at least two people. The Supervisory Board can revoke the appointment of Management Board members and the Chairman of the Management Board if there is good cause.

Amendments to the Articles of Association are based on Sections 179 and 133 of the German Stock Corporation Act and the provisions of the Articles of Association. Any amendment to the Articles of Association requires a resolution by the Annual General Meeting. However, the Company's Supervisory Board is authorised in accordance with Section 11 of the Articles of Association to resolve amendments that only affect the Articles of Association. Section 20 of the Articles of Association provides that in accordance with Section 179 (2) sentence 2 of the German Stock Corporation Act – in the absence of mandatory legal provisions to the contrary – a shareholders' resolution to change the Articles of Association can in principle passed by a simple majority of the votes cast and the share capital represented in the vote.

The law stipulates, in several instances, a larger majority of 75% of the capital shares represented in the vote – e.g. for certain capital measures and the exclusion of subscription rights.

Authorisation of the Management Board to issue new shares (authorised and contingent capital) and repurchase shares

In a resolution passed at the Annual General Meeting on 23 May 2018, 'Authorised Capital 2018' was agreed and the Management Board, subject to the Supervisory Board's approval, was authorised to increase the Company's share capital by a total amount of no more than EUR 29m by issuing up to 29m no-par value ordinary shares on a cash and/or non-cash basis, once or on repeated occasions, on or before 22 May 2023. The Management Board has not utilised this authorisation to date.

By resolution of the Annual General Meeting on 23 May 2018, the Conditional Capital 2017/I approved by the Annual General Meeting on 16 May 2017 was redefined as Conditional Capital 2018/I. The Management Board was authorised to conditionally increase the Company's share capital by up to EUR 29,000,000.00 by issuing up to 29,000,000 new shares. The conditional capital increase serves to grant shares to holders of convertible bonds and/or options that are issued by the Company or by a direct or indirect holding of the Company pursuant to the authorisations by the Annual General Meetings of 14 June 2013, 19 June 2015, 16 May 2017, or of 23 May 2018. In each case, the new shares shall be issued at a conversion or option price to be determined in accordance with the aforementioned authorising resolutions. The conditional capital increase shall only be carried out to the extent that use is made of conversion or option rights, or corresponding obligations are to be fulfilled, and unless other forms of fulfilment are used to service them.

The ordinary General Meeting on 17 June 2016 issued a new authorisation to acquire treasury shares representing up to 10% of the available share capital on the effective date or upon exercise of this authorisation, whichever is lower, up until 16 June 2021. The Company may not utilise this authorisation for the purpose of trading in treasury shares. This authorisation may not be used by the Company for the purpose of trading in treasury shares. In addition to the usual, legally mandated use options, it also includes the authorisation to assign and transfer the shares to members of the Management Board as part of their variable remuneration.

The Company has made partial use of this authorisation. At 31 December 2019, the total number of TAG shares held as treasury shares was 161,815 (previous year: 177,115) TAG shares. Reference is made here to the disclosures to be made in this regard, pursuant to Section 160 (1) No. 2 of the German Stock Corporation Act (AktG), which can be found in the Notes to the annual financial statements of TAG Immobilien AG prepared in accordance with the German Commercial Code (HGB).

Material agreements of the Company that are subject to a change of control following a takeover bid
TAG has lines of credit totalling EUR 27.6m (previous year: EUR 16.5m), which require the bank's approval in the event of a change of shareholder, or in the case of a change of control at the level of TAG Immobilien AG, may otherwise lead to the loans being terminated. In addition, there are numerous change-of-control provisions in the subsidiaries' loan agreements and in their general terms and conditions. Although these primarily apply only at the level of the subsidiaries and in the event of a change in their shareholders, the possibility of the lender invoking change-of-control rights in the event of a change in the indirect shareholder cannot be ruled out.

The two corporate bonds totalling EUR 250m issued, as well as the promissory note loan totalling EUR 102m, have special change-of-control provisions, which obligate the Company to buy back the bonds at terms stated in detail in the terms of the bond or the promissory note. In the case of the EUR 262.0m convertible bond issued in the 2017 financial year, there are special conversion options, or adjustments to the conversion price for bondholders, in the event of a change of control.

The agreements made in connection with a transfer of 5.07% each (10.14% in total) of the shares in a subsidiary to two co-investors in the years 2016 and 2018 also stipulate provisions for a change of control in TAG's shareholder structure. In this case, the co-investor is entitled to rights of disposal and may terminate their investment in the subsidiary prematurely, with TAG liable for compensating for any losses in value.

In addition, the members of the Management Board have a special right of termination in the event of any change in TAG's current shareholder structure. If this special right of termination is utilised, they are entitled to claim a settlement based on the remaining period of service contract as of the date of termination. Further details can be found in the remuneration report below.

Company remuneration agreement with the members of the Management Board or employees in the event of a takeover bid
Apart from the special termination right of the Management Board members already mentioned in the previous paragraph, there are no compensation agreements that have been concluded with the members of the Management Board or employees in the event of a takeover bid.

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTION 289F AND SECTION 315D OF THE GERMAN COMMERCIAL CODE

The Corporate Governance Statement in accordance with the provisions of Sections 289f and 315d HGB, which is not part of this Combined Management Report, is posted on the TAG website at www.tag-ag.com under 'Investor Relations/Corporate Governance/Declaration of Corporate Governance'.

REPORT ON THE COMPANY'S REMUNERATION SYSTEM (REMUNERATION REPORT)

Remuneration scheme for the Supervisory Board

For each full financial year of their membership on the Supervisory Board, members of the Supervisory Board receive fixed compensation in the amount of EUR 20,000.00 plus the premiums for appropriate D&O insurance. The Chairman's Deputy receives 1.5 times this fixed fee, and the Chairman of the Supervisory Board receives a fixed fee in the amount of TEUR 175 for each financial year.

In addition, members of the Audit Committee receive separate compensation. The Chair receives EUR 75,000.00, and each member, except the Chair of the Supervisory Board, receives TEUR 5. Unless the fees are waived as in the past, the members of the HR Committee receive an attendance fee of EUR 500.00 per meeting.

No variable remuneration based on the Company's success or other criteria is granted.

The remuneration paid to the Supervisory Board in the year under review came to TEUR 365 (previous year TEUR 365), plus expenses and VAT, and breaks down as follows:

Supervisory Board Member	2019 in TEUR	2018 in TEUR
Rolf Elgeti	175	175
Lothar Lanz	105	105
Dr. Philipp K. Wagner	20	20
Dr. Hans-Jürgen Ahlbrecht	0	25
Prof. Dr. rer. pol. Kristin Wellner	20	12
Harald Kintzel	25	23
Marco Schellenberg	20	20
Total	**365**	**365**

Remuneration scheme for the Management Board

Basic remuneration system
The members of the TAG Management Board receive a basic remuneration that is not contingent on performance, as well as a variable remuneration, which is paid out partly in cash and partly in the form of TAG shares.

The non-performance-based remuneration takes the form of a fixed annual salary paid out in twelve equal monthly instalments. Some members of the Management Board use a company car, which is taxed accordingly as a non-cash benefit. The members of the Management Board also receive further benefits as other remuneration, some of which are classified as non-cash benefits and are taxed accordingly. In particular, these include a Bahn-Card (for discounted rail travel), accident and liability insurance, private use of communications devices, and compensation for expenses incurred during business travel. The contracts with the members of the Management Board do not provide for any pension entitlements. Some Management Board members still have pension entitlements from a time before they began to work for the TAG Group. While these are non-forfeitable, they do not entail any new claims since then.

Members of the Management Board are not entitled to claim any additional bonuses or duplicate remuneration if they simultaneously serve on the Management Board or Supervisory Board of other companies in the Group. Variable remuneration is determined solely at TAG Immobilien AG level and charged to TAG Immobilien AG. All ancillary activities are subject to approval.

Upon the ordinary termination of office of any member of the Management Board, such member is entitled to payment of any part of the variable remuneration not yet paid out to them, or to any share-based compensation not yet allocated to them. In the event of any change of control, i.e. if a single shareholder or several shareholders acting jointly acquire a majority of the voting rights or a controlling influence over TAG, the members of the Management Board are entitled to terminate their service contract subject to advance notice of six months (special right of termination). If this special right of termination is exercised, the Company undertakes to pay a gross settlement amount on the date of departure that is equal to the annual gross salary, provided that the service contract still has a remaining period of at least 24 months as of the date of termination. If the remaining term is shorter at the time of termination of the Management Board contract, the Management Board contracts contain provisions that provide either as a gross compensation the amount that is the gross salary for the remainder of the remaining term, or a gross settlement that is reduced pro rata temporis over the last 24 months based on a full gross annual salary.

In the event of a premature termination of Management Board contracts for other reasons, the contracts contain the provision that the compensation payable to them is to be capped at a value equalling two annual salaries and shall not exceed the amount due for the remaining period of the contract.

Details of the variable remuneration
The variable remuneration scheme in force since the 2018 financial year differentiates between the

- Short Term Incentive Plan (STIP), which is based on the development of financial KPIs and is intended as an immediately payable cash compensation, and the
- Long Term Incentive Plan (LTIP), which is assessed on total shareholder return (TSR, as the sum of the share price increase plus dividends paid in the given financial year) in a three-year period and is paid in TAG shares.

The STIP is determined on the basis of the following criteria:

- Increase in EPRA NAV per share in the financial year (after elimination of the dividend paid in the financial year); each EUR 0.01 increase in the NAV per share is multiplied by EUR 750.00)
- Increase in FFO I per share in the financial year (each EUR 0.01 increase in the FFO I per share is multiplied by EUR 7,500.00)
- Increase in EBT per share in the financial year, not taking into account the results from the revaluation of the investment properties and from the revaluation of derivative financial instruments (each EUR 0.01 increase in the EBT per share is multiplied by EUR 3,000.00)

The STIP cash remuneration is paid out in full following the Supervisory Board's resolution on the variable remuneration of the financial year in question, and is capped at TEUR 125 p.a. This is also the target figure for the STIP, which corresponds to an average increase of around 6.5% or 5.3% in the above criteria for determining the variable remuneration according to the STIP in a year-on-year comparison between 2017 and 2018 or 2018 and 2019, respectively.

The multi-year variable compensation (LTIP), on the other hand, is granted in TAG shares, the number of which is assessed based on the TSR over a three-year period. The TSR performance is assessed on the one hand based on the performance of the TAG share in a three-year period that begins anew each year, and on the other hand relative to the performance of a selected group of competitors (peer group) during this period.

The basis for calculating the share price performance is the volume-weighted average price (VWAP) of the TAG share over a period of two months prior to the reporting date of the financial year at the beginning and the end of a three-year period. To ensure that the valuation basis relates to the future, the target TSR for the three-year performance period is set at 30%:

- If the actual TSR corresponds to the target TSR, the LTIP amounts to TEUR 150 p.a.
- If the actual TSR is above or below the target TSR, the amount is calculated or adjusted linearly in accordance with the target TSR (an actual TSR of 20%, for example, results in an LTIP of 20/30 x TEUR 150 = TEUR 100).
- If the actual TSR is negative, the LTIP is TEUR 0.

The actual TSR is compared with the result of the peer group and, if the actual TSR is at least 2% better or 2% worse, this is taken into account by making allowances or deductions. If the actual TSR is better than the performance of the peer group, a supplement of 25% is applied, and in the case of a poorer performance a deduction of 25% is applied. The peer group is made up of listed real estate companies that, as portfolio holders, have substantial residential real estate in Germany. The peer group currently comprises the following companies: Vonovia SE, Deutsche Wohnen SE, LEG Immobilien AG, Grand City Properties S.A., ADO Properties S.A. and Adler Real Estate AG. The companies are given equal weighting.

The variable share-based remuneration in the form of the LTIP is capped at TEUR 300 p.a. The assignment of the TAG shares that the Management Board is entitled to through the LTIP takes place after the end of the respective three-year period following the Supervisory Board's resolution of the variable remuneration. The basis for calculating the number of TAG shares to be transferred is the VWAP of the TAG share over a period of two months prior to the end of the respective financial year.

In principle, it is not possible to change the parameters relevant to variable remuneration. With regard to the STIP, the Supervisory Board can only change the weighting of the criteria in exceptional cases, if these criteria do not reflect the normal and actual performance of the Company and the performance of all or individual criteria is based on causes that are neither foreseeable nor can lie within the area of responsibility of the Management Board members. In exceptional cases, the Supervisory Board may also resolve something different with regard to special situations and/or special performance of the individual Management Board member. The LTIP can only be amended in that the Supervisory Board can change the composition of the peer group if comparability no longer exists due to takeovers or changes in the business models, or if the companies relocate their focus abroad or if the inclusion of a competitor would no longer be appropriate or expedient for other reasons. Actual changes have not been made by the Supervisory Board since the introduction of this variable Management Board remuneration.

Remuneration paid to the Management Board in the financial year under review

Remuneration accruing to the Management Board in the year under review (benefits granted) came to TEUR 1,809 (previous year: TEUR 1,861). The amounts paid to the members of the Management Board in the year under review, some of which include remuneration earned in earlier years as well, amount to TEUR 2,070 (previous year: TEUR 2,132). The total cost of share-based compensation recognised in the income statement in the financial year corresponds in each case to the multi-year variable compensation granted, as shown in the table below. The remuneration is distributed as follows among the individual members of the Management Board:

in TEUR	Claudia Hoyer COO				Martin Thiel CFO				Dr. Harboe Vaagt CLO			
	2018 (Actual)	2019 (Actual)	2019 (Min.)	2019 (Max.)	2018 (Actual)	2019 (Actual)	2019 (Min.)	2019 (Max.)	2018 (Actual)	2019 (Actual)	2019 (Min.)	2019 (Max.)
Granted												
Fixed remuneration	420	420	420	420	420	420	420	420	420	420	420	420
Ancillary benefits	16	15	15	15	7	7	7	7	14	14	14	14
Total	**436**	**435**	**435**	**435**	**427**	**427**	**427**	**427**	**434**	**434**	**434**	**434**
One-year variable remuneration	125	125	0	125	125	125	0	125	125	125	0	125
Multi-year variable remuneration	63	46	0	300	63	46	0	300	63	46	0	300
Total	**188**	**171**	**0**	**425**	**188**	**171**	**0**	**425**	**188**	**171**	**0**	**425**
Utility expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**624**	**606**	**435**	**860**	**615**	**598**	**427**	**852**	**622**	**605**	**434**	**859**
Inflow												
Fixed remuneration	420	420	420	420	420	420	420	420	420	420	420	420
Ancillary benefits	16	15	15	15	7	7	7	7	14	14	14	14
Total	**436**	**435**	**435**	**435**	**427**	**427**	**427**	**427**	**434**	**434**	**434**	**434**
One-year variable remuneration	75	125	0	125	75	125	0	125	75	125	0	125
Multi-year variable remuneration	210	133	0	133	191	133	0	133	210	133	0	133
Total	**285**	**258**	**0**	**258**	**266**	**258**	**0**	**258**	**285**	**258**	**0**	**258**
Utility expenses	0	0	0	0	0	0	0	0	0	0	0	0
Total remuneration	**721**	**693**	**436**	**693**	**693**	**685**	**427**	**685**	**718**	**692**	**434**	**692**

MATERIAL EVENTS AFTER THE REPORTING DATE

On 8 November 2019, TAG signed a contract for the acquisition of all shares in Vantage Development S.A. The acquisition of the shares became legally effective on 13 January 2020.

Apart from this, there were no material events after the reporting date.

Hamburg, 17 February 2020

Claudia Hoyer
COO

Martin Thiel
CFO

Dr. Harboe Vaagt
CLO

CONSOLIDATED BALANCE SHEET

Assets in TEUR	Notes	12/31/2019	12/31/2018
Non-current assets			
Investment properties	(1)	5,199,993	4,666,673
Intangible assets	(2)	2,629	980
Property, plant and equipment	(3)	30,926	26,366
Rights of utilisation	(4)	9,180	0
Other financial assets	(5)	9,003	8,162
Deferred taxes	(6)	49,730	69,952
		5,301,461	**4,772,133**
Current assets			
Property held as inventory	(7)	58,452	52,296
Other inventories	(7)	164	253
Trade receivables	(8)	17,432	14,177
Income tax receivables	(6)	1,431	4,706
Other current assets	(9)	10,996	11,065
Prepayments on business combinations	(10)	131,192	0
Cash and cash equivalents	(11)	91,306	91,718
		310,973	**174,215**
Non-current assets held for sale	(12)	**34,536**	**86,995**
		5,646,970	**5,033,343**

Equity and liabilities in TEUR	Notes	12/31/2019	12/31/2018
Equity	(13)		
Subscribed capital		146,337	146,322
Share premium		522,985	773,417
Other reserves		1,035	1,035
Retained earnings		1,672,212	1,085,705
Attributable to the equity holders of the parent company		2,342,569	2,006,479
Attributable to non-controlling interests		51,667	41,847
		2,394,236	**2,048,326**
Non-current liabilities			
Liabilities to banks	(14)	1,788,324	1,730,272
Liabilities from corporate bonds and other loans	(14)	350,354	248,771
Liabilities from convertible bonds	(14)	258,329	256,981
Derivative financial instruments	(14)	71,508	42,005
Retirement benefit provisions	(15)	5,799	5,505
Other non-current liabilities	(14)	17,048	10,850
Deferred taxes	(6)	497,027	433,456
		2,988,389	**2,727,840**
Current liabilities			
Liabilities to banks	(14)	112,872	125,271
Liabilities from corporate bonds and other loans	(14)	52,622	36,992
Liabilities from convertible bonds	(14)	546	546
Income tax liabilities	(6)	11,908	6,800
Other provisions	(16)	22,824	31,913
Trade payables	(17)	21,797	14,093
Other current liabilities	(18)	41,001	41,563
		263,570	**257,178**
Liabilities associated with non-current assets held for sale	(12)	**775**	**0**
		5,646,970	**5,033,343**

CONSOLIDATED INCOME STATEMENT

in TEUR	Notes	2019	2018
Rental income		405,506	400,362
Impairment losses		-3,899	-4,072
Rental expense		-142,030	-150,165
Net rental income	(19)	**259,577**	**246,125**
Revenues from the sale of real estate		41,749	84,355
Expenses on the sale of real estate		-42,154	-84,486
Sales result	(20)	**-405**	**-131**
Revenue from Services		51,191	44,760
Impairment losses		-487	-369
Expenses from services		-29,668	-26,720
Services result	(21)	**21,036**	**17,671**
Other operating income	(22)	5,614	9,630
Fair value changes in investment properties and valuation of properties held as inventory	(23)	414,098	430,042
Personnel expense	(24)	-50,305	-43,715
Depreciation/amortisation	(2,3)	-6,797	-4,274
Other operating expense	(25)	-17,894	-17,112
EBIT		**624,924**	**638,236**
Net income from investments	(26)	1,374	1,774
Interest income	(26)	480	1,193
Interest expense	(26)	-79,440	-98,989
EBT		**547,338**	**542,214**
Income taxes	(6)	-90,964	-54,005
Consolidated net income		**456,374**	**488,209**
attributable to non-controlling interests	(13)	10,115	7,242
attributable to equity holders of the parent company		446,259	480,967
Earnings per share (in EUR)	(27)		
Basic earnings per share		3.05	3.29
Diluted earnings per share		2.90	3.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	Notes	2019	2018
Net income as shown in the income statement		**456,374**	**488,209**
Items that will later be classified as expense			
Unrealised gains and losses from hedge accounting	(13)	0	166
Deferred taxes on unrealised gains and losses	(6)	0	-54
Other comprehensive income after taxes		0	112
Total comprehensive income		**456,374**	**488,321**
attributable to non-controlling interests	(13)	10,115	7,242
attributable to equity holders of the parent company		446,259	481,079

CONSOLIDATED CASH FLOW STATEMENT

in TEUR	Notes	2019	2018
Consolidated net income		456,374	488,209
Net interest income/expense through profit and loss	(26)	78,960	97,796
Current income taxes through profit and loss	(6)	7,170	4,031
Depreciation	(2, 3, 4)	6,796	4,274
Profit or loss from investments in associates	(5)	- 1,374	- 1,774
Fair value changes in investment properties and valuation of properties held as inventory	(23)	- 414,098	- 430,042
Gains/losses from the disposal of investment properties	(1, 20)	- 101	- 31
Gains from the disposal of tangible and intangible assets		16	21
Impairments accounts receivables	(19, 21)	4,386	4,441
Changes to deferred taxes	(6)	83,793	49,975
Changes in provisions	(15, 16)	- 8,795	- 5,641
Interest received		240	449
Interest paid		- 49,724	- 56,061
Income tax payments and refunds		1,101	- 2,853
Changes in receivables and other assets		- 13,500	848
Changes in payables and other liabilities		3,165	5,980
Cash flow from operating activities		**154,409**	**159,622**

in TEUR	Notes	2019	2018
Payments received from the disposal of investment properties (less selling costs)	(1, 20)	40,484	77,947
Payments made for the purchase of subsidiaries	(10)	- 131,192	- 81,374
Payments made for investments in investment properties	(1)	- 105,945	- 103,090
Payments received from other financial assets	(5)	846	652
Payments received from the disposal of intangible assets and property, plant and equipment	(2, 3)	90	121
Payments made for investments in intangible assets and property, plant and equipment	(2, 3)	- 10,893	- 5,973
Cash flow from investing activities		**- 206,610**	**- 111,717**
Purchase of treasury shares	(13)	0	- 2,377
Proceeds from the issuance of treasury shares (net, after costs)	(13)	317	510
Payments made for the purchase of minority interests	(14)	- 78	- 22
Payments received from the disposal of minority interests	(14)	0	16,178
Payments made for the repayment of corporate bonds and other loans	(14)	- 125,000	- 340,397
Proceeds from the issuance of corporate bonds and other loans	(14)	241,287	298,633
Dividends paid	(13)	- 109,752	- 95,109
Distribution to minority investors	(14)	- 1,785	- 1,336
Proceeds from new bank loans	(14)	94,375	42,215
Repayment of bank loans	(14)	- 45,466	- 126,431
Repayment of lease liabilities	(14)	- 2,031	0
Cashf low from financing activities		**51,867**	**- 208,136**
Net change in cash and cash equivalents		- 334	- 160,231
Cash and cash equivalents at the beginning of the period		89,016	249,247
Foreign currency exchange effects		4	0
Cash and cash equivalents at the end of the period		**88,686**	**89,016**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Attributable to the parent's shareholders							
			Other reserves					
in TEUR	Subscribed capital	Share premium	Retained earnings	Hedge accounting reserve	Retained earnings	Total	Non-controlling interests	Total equity
Amount on 01/01/2019	**146,322**	**773,417**	**1,035**	**0**	**1,085,705**	**2,006,479**	**41,847**	**2,048,326**
Consolidated net income	0	0	0	0	446,259	446,259	10,115	456,374
Colonia settlement offer	0	-871	0	0	0	-871	0	-871
Issue of treasury shares	15	302	0	0	0	317	0	317
Share-based compensation	0	137	0	0	0	137	0	137
Dividends paid	0	0	0	0	-109,752	-109,752	0	-109,752
Withdrawals from the capital reserve	0	-250,000	0	0	250,000	0	0	0
Initial consolidation of real estate asset companies	0	0	0	0	0	0	-295	-295
Amount on 12/31/2019	**146,337**	**522,985**	**1,035**	**0**	**1,672,212**	**2,342,569**	**51,667**	**2,394,236**
Amount on 01/01/2018 before first-time application of IFRS 9	**146,439**	**779,689**	**46**	**-112**	**699,848**	**1,625,910**	**20,738**	**1,646,648**
First-time application of IFRS 9	0	0	989	0	0	989	4	993
Amount on 01/01/2018 after first-time application of IFRS 9	**146,439**	**779,689**	**1,035**	**-112**	**699,848**	**1,626,899**	**20,742**	**1,647,641**
Consolidated net income	0	0	0	0	480,967	480,967	7,242	488,209
Other comprehensive income	0	0	0	112	0	112	0	112
Total comprehensive income	**0**	**0**	**0**	**112**	**480,967**	**481,079**	**7,242**	**488,321**
Colonia settlement offer	0	-710	0	0	0	-710	0	-710
Purchase of treasury shares	-150	-2,225	0	0	0	-2,375	0	-2,375
Costs related to purchase of treasury shares	0	-2	0	0	0	-2	0	-2
Issuance of treasury shares	33	477	0	0	0	510	0	510
Disposal of minority interests	0	-4,000	0	0	0	-4,000	13,597	9,597
Share-based compensation	0	188	0	0	0	188	0	188
Dividends paid	0	0	0	0	-95,109	-95,109	0	-95,109
Change in non-controlling interests	0	0	0	0	0	0	266	266
Amount on 12/31/2018	**146,322**	**773,417**	**1,035**	**0**	**1,085,705**	**2,006,479**	**41,847**	**2,048,326**

NOTES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The consolidated financial statements of TAG Immobilien AG, Hamburg, as of 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) in the form required to be applied in the European Union. In addition, the provisions contained in Section 315e (1) of the German Commercial Code were observed.

TAG Immobilien AG is a real estate company that concentrates on the residential real estate market. It essentially acts as the holding company of the integrated group and, together with its employees, performs all essential central functions. The real estate held by TAG Immobilien AG and its subsidiaries (hereinafter also referred to as "TAG" or the "Group") is located in various regions of Northern and Eastern Germany, North Rhine-Westphalia and, from 2020, additionally also in Poland. As of 31 December 2019, TAG had around 84,500 (previous year: roughly 84,400) residential units under management. The Company is registered with the Local Court of Hamburg under HRB 106718 and has registered offices at Steckelhörn 5, 20457 Hamburg, Germany.

The financial year of the parent company and the consolidated subsidiaries is the calendar year. Uniform recognition and measurement methods have been applied to the financial statements prepared by the consolidated companies in accordance with IFRS. The consolidated financial statements are prepared in euros, which is the Group parent's functional currency. In the absence of any indication to the contrary, amounts are cited in thousands of euros (TEUR). As a result, rounding differences may occur.

The consolidated income statement is prepared using the type of expenditure method. EBIT is defined as earnings before interest, taxes and other net borrowing costs. EBT is defined as earnings before income taxes.

TAG's consolidated financial statements and the combined management report were prepared by the Management Board and released for publication on 17 February 2020 subject to approval by the Supervisory Board.

CONSOLIDATION

As of 31 December 2019, a total of 77 (previous year: 76) companies are fully consolidated and included in the consolidated financial statements. The changes result from the first-time consolidation of three newly incorporated companies and the merger of two companies within the Group.

The list of shareholdings is attached to the notes to the consolidated financial statements and forms an integral part of these. Companies that apply the exemptions provided for in Section 264 (3) of the German Commercial Code are duly designated in the list of shareholdings.

The consolidated financial statements include the parent company's financial statements and those of the subsidiaries which it controls. The parent company is particularly deemed to exercise control if

- it controls the subsidiary,
- is exposed, or has rights, to variable returns from its involvement, and
- has the ability to affect those returns through its power over the subsidiary.

In addition to holding a majority of the voting rights, the parent company is deemed to exert control if it has the practical possibility of exerting material influence on the subsidiary. These enterprises are included in the consolidated financial statements from the date on which the TAG Group obtains control. They are de-consolidated from the date on which the possibility of exerting control ceases. If shares in subsidiaries are considered to be of subordinate significance from the Group's perspective, they are classified as available-for-sale financial instruments.

The purchase method of accounting as defined in IFRS 3 is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition plus non-controlling interests over the net assets of the subsidiary acquired is recognised directly in the income statement. The cost of business combinations is recorded in profit and loss.

If shares are acquired or sold in companies which are previously or subsequently consolidated in full (business combination or sale without any change of status), the differences between the purchase price and the book value of the assets acquired or sold are recognised directly in equity.

The purchase and sale of real estate asset companies which do not engage in any business as defined in IFRS 3 are treated as a direct real estate purchase or sale (asset deal). In this case, the cost of the business combination is allocated to the individually identifiable assets and liabilities on the basis of their fair value. Accordingly, the acquisition of real estate asset companies does not give rise to any differences.

Income and expenses as well as receivables and liabilities between fully consolidated companies are eliminated. Inter-company transactions not realised by a sale to or the provision of services for third parties are likewise eliminated.

Interests in consolidated equity capital and consolidated net profit not attributable to TAG are recorded within "Non-controlling interests" in the consolidated balance sheet and the consolidated income statement. The effects of purchase accounting recognised directly in the income statement are also included in the calculation of the share in consolidated net profit attributable to non-controlling interests.

If a guaranteed dividend is agreed upon for a non-terminable minimum contractual period, the present value of the future payments is recognised as a liability and the non-controlling interests reduced accordingly.

If the holders of the non-controlling interests are offered a put right under a settlement offer, these claims are recognised as financial liabilities and the non-controlling interests derecognised. If the options are not exercised during the prescribed period, the liabilities are reclassified as non-controlling interests within equity.

Shares in associates are accounted for using the equity method of accounting. An associate is an entity in which the owner has significant control.

Currency translation

TAG applies the functional currency concept for the purposes of currency translation in its consolidated financial statements. The functional currency of the parent company and the reporting currency in the consolidated financial statements is the euro.

The Polish subsidiaries included in the consolidated financial statements following the acquisition of Vantage Development S.A. conduct their business independently using the Polish zloty as their functional currency; their financial statements are therefore translated into the reporting currency using the modified closing rate method. Any translation differences arising are reported as a separate item within other comprehensive income and recognised directly in equity in a separate reserve.

Foreign currency transactions of the Group companies are translated into the functional currency using the temporal method at the exchange rate prevailing on the date of the transaction. Monetary balance sheet items in a foreign currency are translated at the closing rate on each reporting date. Translation differences are recognised through profit and loss. Non-monetary items that are measured at historical cost are measured on the reporting date at the exchange rate applicable at the time of initial recognition. Non-monetary items that are measured at fair value are translated on the reporting date at the exchange rate applicable on the date on which the fair value was determined. Translation differences in non-monetary items are recognised through profit and loss, provided that a gain or loss on the corresponding item is also recognised through profit and loss. Otherwise they are reported within other comprehensive income.

Acquisition of Vantage Development S.A.

On 8 November 2019, TAG signed a contract for the acquisition of all the shares in Vantage Development S.A. ("Vantage"). Vantage is a real estate developer with headquarters and its primary business in Wroclaw in the western part of Poland. As of the date of acquisition, Vantage's firm project pipeline consisted of several residential projects with a total of approximately 5,300 units.

The acquisition of the shares in Vantage became legally effective on 13 January 2020 (acquisition date). On the basis of a takeover bid price of PLN 11.50 per share, the total transaction price (based on a PLN/EUR exchange rate of 4.235) came to PLN 558.5m (EUR 131.9m), of which PLN 197.0m (EUR 46.5m) was returned to Vantage, and thus indirectly to TAG, following the carve-out of the commercial real estate business which was sold back to the previous shareholders. Accordingly, the net purchase price payable for the residential real estate business and the Vantage Development platform amounts to PLN 361.5m (EUR 85.4m) and was financed entirely from TAG's existing liquidity position. In addition, transaction costs, particularly legal and consulting fees, of EUR 1.0m were incurred and recognised within other operating expenses in the income statement. In addition, the purchase agreement contains a price adjustment clause, which may result in an increase in the purchase price of up to PLN 12.0m (approximately EUR 2.8m) if a project for which no firm contract has yet been signed is realised.

The provisional allocation of the total purchase price to the assets and liabilities acquired is as follows:

Purchase price allocation (preliminary) in EUR m	01/13/2020
Real estate assets	131.9
Deferred tax assets	1.4
Other assets	3.5
Cash and cash equivalents*	82.8
Assets total	**219.6**
Financial liabilities	68.0
Deferred taxes	7.4
Other lialibilties	15.0
Liabilities total	**90.4**
Net assets at fair value	**129.2**
Purchase price	131.9
Goodwill	**2.7**

* Including cash from the sale of the commercial segment

The above purchase price allocation is provisional because the IFRS consolidated financial statements of Vantage effective as of the date of acquisition and the fair value valuation of the real estate assets and other assets and liabilities had not yet been conclusively determined at the time these consolidated financial statements were prepared. The purchase price allocation will therefore not be finalised until during the course of 2020. Accordingly, the fair values presented above may be subject to change.

The goodwill expected to arise from the acquisition particularly comprises synergistic effects from the future management of the real estate portfolio by the TAG Group as well as the value of the acquired platform to the extent that this cannot be expressed in individually identifiable assets.

Of the acquired trade receivables of a gross amount of EUR 1.1 million, an amount of EUR 0.1 million is assumed to be uncollectible at the acquisition date.

NEW STANDARDS AND INTERPRETATIONS

First-time adoption of new standards in the financial year 2019

The following new accounting standards and interpretations were applied for the first time for the IFRS consolidated financial statements prepared for the previous financial year:

Standard	Index
IFRS 16	Leases
Amendments to IFRS 9	Financial Instruments – Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendments, Curtailments and Settlements
Amendments to IAS 28	Long-Term Interests in Associates and Joint Ventures
IFRIC 23	Uncertainty over Income Tax Treatments
IFRS Improvement Cycle 2015–2017	Amendments to and clarification of IFRS 3, IFRS 11, IAS 12 and IAS 23

The amendments to IFRS 9 allow companies to measure certain financial assets with an early repayment option and a negative compensation payment at amortised cost or at fair value through other comprehensive income. They also confirm that effects from the modification of a financial liability are to be recognised through profit and loss.

The amendments to IAS 19 require entities to use updated assumptions to determine current service cost and net interest after a plan amendment. In addition, any reduction in overfunding must be recognised through profit or loss as part of past service cost.

The amendments to IAS 28 clarify that long-term interests (such as preferred shares or long-term loans) in associates or joint ventures that form part of the net investment in these companies are to be measured in accordance with IFRS 9.

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 "Income Taxes" are to be applied in the case of uncertain income tax treatments or tax positions involving risk.

IFRS Improvement Cycle 2015-2017 includes amendments to the effect that in the case of a business combination achieved in stages the previously held interest in a business that is a joint operation must be remeasured (IFRS 3), whereas no remeasurement is required when joint control over a business that is a joint operation is obtained by acquiring additional shares (IFRS 11). In addition, it clarifies the treatment of dividends on financial instrument classified as equity (IAS 12) and the determination of the general rate of borrowing costs for qualifying assets (IAS 23).

TAG applied the new IFRS 16 standard for the first time from 1 January 2019. The effects are described in the following sections. Announcements and amendments to existing standards did not have any material impact.

IFRS 16: Leases

The Group has applied the modified retrospective method for the implementation of IFRS 16 and refrained from adjusting the comparison figures for the previous year. Details of the changes in accounting policies are set out in the notes on individual accounting policies. In addition, the disclosure duties provided for in IFRS 16 were not generally applied to comparative information. The first-time application of IFRS 16 as of 1 January 2019 had the following effects on the Group's net assets, financial condition and results of operations in the period under review.

- Recognition of right-of-use assets of around EUR 10.2 million as of 1 January 2019 and of a lease liability of a matching amount; initial application of the new standard did not have any impact on equity.
- Increase of EUR 2.2 million in depreciation and amortisation
- Increase of EUR 0.2 million in interest expense
- Reduction of EUR 0.4 million in service expense
- Reduction of EUR 1.6 million in other operating expenses

TAG has made use of the option not to apply the new accounting guidance to leases with a remaining term of less than twelve months as of the date of initial application.

Compared with the other financial liabilities reported in the notes as of 31 December 2018, the lease liability recognised as of 1 January 2019 due to the initial application of IFRS 16 breaks down as follows:

in TEUR	
Other financial obligations at 12/31/2018	15,942
thereof non-leasing relevant contracts (service and licence agreements)	-2,734
Other financial obligations under leases	**13,207**
Non-consideration of non-deductible input tax	-1,795
Non-consideration of short-term contracts and contract of low-value	-192
Discounting to the present value oft he liability	-1,057
Lease liabilities as of 1 January 2019	**10,163**

Lease payments were discounted on the basis of a maturity-oriented incremental borrowing rate. The weighted average was 1.7%.

The initial application of IFRS 16 had only a very minor effect on Group earnings and caused a slight decline in the equity ratio due to the increase in total assets recognised by the Group. The reduction in operating expenses resulted in an increase in EBITDA, although this effect of EUR 2.0m is eliminated in adjusted EBITDA. With respect to the cash flow statement, the increase in cash flow from operating activities was matched by a reduction of the same amount in cash flow from financing activities.

There was no impact on the key performance indicator funds from operations (FFO) for 2019. The shift in service expenses and other operating expenses to depreciation and amortisation and interest expense was adjusted in the calculation of this performance indicator and shown in a separate line item. Before this adjustment, FFO would have risen by EUR 2.0m in the period under review as a result of the initial application of IFRS 16.

Further disclosures on leases can be found in the following notes:

- Note 1. Investment properties
- Note 4. Right-of-use assets
- Note 14. Financial liabilities
- Note 25. Other operating expenses

New standards not yet applied

The following standards, which were new or revised by the IASB as of the balance sheet date are not applicable until after the balance sheet date - pending endorsement by the European Union - and were not early adopted on a voluntary basis:

Standard	Index	Initial application
Endorsed by the EU		
Amendments to IAS 1 and IAS 8	Definition of Material	01/01/2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Reform of the Interbank reference rates	01/01/2020
Amendments to the IFRS framework	Amendments to references in the conceptual framework in International Financial Reporting Standards	01/01/2020
EU endorsement pending		
Amendments to IFRS 3	Business Combinations: Definition of a Business	01/01/2020
IFRS 17	Insurance Contracts	01/01/2021
Amendments to IAS 1	Classification of liabilities	01/01/2022
Amendments to IFRS 10 and IAS 28	Sale or Contributions of Assets between an Investor and its Associate/Joint Venture	open

The Company does not plan to early adopt any of these new standards. No material impact arises from other standards to be applied from 1 January 2020. The effects of other amendments to the standards applicable from a later date are currently being reviewed.

RECOGNITION AND MEASUREMENT PRINCIPLES

Principles

These financial statements are based on the going-concern principle. Amounts are for the most part measured at amortised cost. This does not apply to investment properties, non-current assets held for sale and hedges, all of which are recognised at their fair value.

Investment properties

Depending on its intended use, TAG initially recognises real estate assets as investment properties, inventory properties or owner-occupied properties. Real estate assets held under operating leases in which the Group is the lessee are classified and accounted for as investment properties.

Investment properties include the Group's real estate assets which are held to generate rental income and/or for capital appreciation and are not used by the Group itself for operating purposes or sold in the ordinary course of business. Real estate that is sold in the ordinary course of business is allocated to inventories and real estate used by the Group itself to property, plant and equipment.

Details of the investment properties that are classified as held for sale in later years following initial recognition can be found further down in the section entitled "Non-current assets held for sale and related liabilities".

Investment properties are initially recognised at cost including transaction costs. They are subsequently measured at their fair value, which reflects market conditions as of the reporting date. Any gains or losses from changes in fair value are recognised in the income statement. This also includes any ensuing extension, conversion or modernisation costs that contribute to an increase in the fair value of the property.

Operating leases for land and buildings in the form of hereditary building rights in which the Group is the lessee are classified as financial investments and accounted for as finance leases. They are recognised within investment properties and include the corresponding lease liabilities.

Valuation reports as of 30 June and 31 December of each year are prepared for the investment properties held.

Intangible assets

Individual intangible assets are initially recognised at cost. Intangible assets acquired as part of the acquisition of a company are recognised at their fair value as of the date of acquisition. Thereafter, they are recognised at cost less cumulative amortisation and cumulative impairment losses.

Intangible assets with a definite useful life are written down on a straight-line basis over their expected useful life (generally three to eight years) and tested for impairment in the event of any indication of any impairment in their value. The amortisation period and method are reviewed at the end of each year at least and any resultant changes treated as a change to the estimate. There are no intangible assets with indefinite lives.

Impairments of intangible assets are recorded in the income statement within amortisation and depreciation expense.

Property, plant and equipment

Property, plant and equipment are shown at cost less cumulative systematic depreciation and cumulative impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets in question, which is generally three to 13 years in the case of business and operating equipment and 30 to 50 years in the case of the real estate used by the Group. The depreciation methods and useful lives are reviewed at the end of each year and adjusted if necessary.

The carrying amounts of property, plant and equipment are reviewed for any impairment upon any evidence arising indicating that the carrying values exceed the recoverable values. Impairment losses on real estate are identified using external valuation reports, which are prepared on the basis of the discounted cash flow method. Impairments of property, plant and equipment are recorded in the income statement within amortisation and depreciation expense.

Leases

Contractual arrangements that transfer control over an asset (the leased item) for a specified period of time in return for a consideration are classified as leases.

Up until 31 December 2018, economic ownership of leased assets was assigned to the lessee in accordance with IAS 17 if it bore materially all of the opportunities and risks related to the leased assets. Such finance leases are of subordinate importance for TAG. As a lessee, TAG primarily holds leases for business premises, vehicles and operating and office equipment, under which economic ownership remains with the lessor. Payments under these operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

In addition, TAG continues to act as a lessor in its rental business. The Group has classified these transactions as operating leases. Material opportunities and risks relating to the properties are not transferred and are retained by the Group. Rental income is recognised on a straight-line basis over the term of a lease. As the guidance on lease accounting by lessors has not significantly changed with the introduction of IFRS 16, no adjustments have been made to the methods for accounting for these leases. This also applies to the subleases classified as operating leases in connection with the rental of real estate held as hereditary building rights.

With the application of IFRS 16 as of 1 January 2019, a lessee must recognise the right to use the underlying assets on its balance sheet in the case of all leases. At the same time, a corresponding lease liability equalling the present value of all relevant lease payments is recognised. The right-of-use asset is subsequently depreciated over the period of use. In addition, any further impairments are also recognised as far as this is necessary. The liability is subsequently measured using the effective interest method.

The accounting conveniences are utilised for short-term leases of less than twelve months with the result that payments are recognised directly through profit and loss. In the case of leases for office space and for vehicles which contain both non-lease and lease components, the option not to separate these components is used. Options to extend or terminate the lease are taken into account in the determination of the duration of the lease where it is reasonably certain that the option in question will or will not be exercised, as the case may be.

Financial assets

a. Classification

Financial assets within the meaning of IFRS 9 are classified in the light of the business model under which the asset in question is held and the characteristics of their cash flows:

- at amortised cost (AmC),
- at fair value through profit and loss (FVTPL)
- at fair value through other comprehensive income (FVTOCI)

The Group determines the classification of its financial assets upon initial recognition. Reclassification is only possible in the event of a change to the business model.

Debt instruments held by TAG are measured at amortised cost if the Company intends to hold them and to realise the fixed cash flows, which may only contain interest and principle components. In TAG's case, this applies to trade receivables, other current assets and cash and cash equivalents.

Upon initial recognition, the Group may irrevocably decide to recognise at fair value through profit and loss those financial assets that otherwise satisfy the conditions for recognition at amortised cost if this helps to eliminate or significantly reduce any accounting mismatches. TAG does not make use of this option.

Equity instruments not held for trading purposes are recognised at fair value through profit and loss. Alternatively, there is an irrevocable option, the merits of which must be assessed on a case-by-case basis, to recognise these instruments at fair value through other comprehensive income upon initial recognition. In this case, the cumulative changes in fair value remain within equity permanently and are not recycled to profit and loss. Similarly, TAG does not make use of this option. As far as TAG is concerned, this relates to non-controlling interests in non-listed real estate asset companies reported as other financial assets as well as investment funds for which there is no specific intention to sell. Any changes in the value of these instruments including dividends or interest received from them are also reported in the share of profit of associates.

Derivative financial instruments are measured at fair value through profit and loss. The fair value is calculated using established valuation models on the basis of observable market inputs. The changes in the fair value of these derivatives are also recognised in the income statement.

b. Initial recognition

Trade receivables are recognised from the date on which they arise. All other financial assets and liabilities are initially recognised on the trading day where the Company becomes party to the contract under the terms governing the instrument in question.

Financial assets are normally initially recognised at their fair value. If they are recognised at amortised cost or at fair value through other comprehensive income, transaction costs are additionally included. However, trade receivables without any material financing component are initially recognised at their transaction price.

c. Derecognition

A financial asset is derecognised if the contractual rights to draw on the cash flows from it have expired or if these including all material opportunities and risks are transferred.

d. Impairments

The Group recognises impairments for expected credit losses on financial assets measured at amortised cost.

These impairments normally equal the amount of the expected credit losses over the term of the instrument in question. However, impairments equalling the expected 12-month credit loss are recognised if there has been no significant increase in the credit loss since initial recognition. Impairments of trade receivables always equal the expected credit loss over their respective term.

Expected credit losses over the term of the instrument are expected credit losses resulting from all possible loss events during the expected term of the instrument. 12-month credit losses are the portion of expected credit losses that result from loss events occurring within twelve months (or, if shorter, the term of the instrument) after the reporting date.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, the Group considers appropriate and reliable information that is relevant and available without undue expense of time and money. This includes both quantitative and qualitative information and analyses based on the Group's past experience and sound estimates, including forward-looking information.

Properties held as inventories and other inventories

Properties held as inventories include real estate assets that are intended for sale under normal business activities or that are under construction or development as of the acquisition date. If the intention to sell is abandoned, the land is reclassified as investment properties.

Properties held as inventories and other inventories are reported at the lower of cost or net realisable value. Cost includes the costs directly attributable to the development process of the real estate. Borrowing costs in connection with the acquisition or construction of land are capitalised provided that the applicable conditions for this are satisfied. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Income tax refund claims and liabilities as well as deferred income taxes

Income tax refund claims and income tax liabilities are recognised at the amount expected to be paid to or recovered from the taxation authorities

Deferred income taxes are calculated using the balance-sheet oriented liability method for all temporary differences arising as of the balance sheet date between the carrying value of an asset or liability and its tax base. Excluded from this is goodwill arising from acquisition accounting.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that realisation of the related income tax benefit through future taxable profits is probable. Deferred income tax assets are set off against deferred income tax liabilities of the same taxable entity if they relate to income taxes levied by the same taxation authority and the enterprise has a legally enforceable right to set off current tax assets against current tax liabilities.

Current and deferred income tax assets and liabilities are measured using tax rates and laws that, based on information available at the reporting date, are expected to apply in the period in which the asset is realised or the liability settled.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash at bank with an original maturity period of less than three months.

Non-current assets held for sale and related liabilities

Investment properties are classified as held for sale if TAG makes a decision to sell the real estate asset in question and this asset is immediately available for sale and, as of the date of this decision, can be expected to be sold within one year. They continue to be measured at their fair value.

Other non-current assets or groups of available-for-sale assets are designated as available for sale if the book value is predominantly recovered via a sales transaction rather than through continuing use, the asset is available for immediate sale and a sale can consider to be highly probable. They are recognised at the lower of their previous book value and fair value net of the cost of disposal.

Non-current assets held for sale and related liabilities are reported separately within the balance sheet.

Differentiation of equity capital

Debt and equity instruments are classified as financial liabilities or equity depending on the economic effect of the underlying contract. An equity instrument is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities. Equity instruments are recorded at the issue process less directly attributable equity transaction costs.

Equity transaction costs are costs which would not have arisen had it not been for the issue of the equity instrument. Equity transaction costs (e.g. all costs related to equity issues) net of the resultant income tax benefits are deducted from equity and netted with other paid-in capital.

The convertible bond issued by TAG does not contain any equity component due to the cash settlement option held by TAG. Instead, the conversion right existing alongside the underlying instrument is separated as an embedded derivative and recognised as a financial liability at fair value through profit and loss.

Financial liabilities

Financial liabilities within the meaning of IFRS 9 are measured at amortised cost or at fair value through profit and loss. Financial liabilities held for trading and derivatives as well as other interests for which the corresponding option is exercised are recognised at fair value through profit and loss. TAG only assigns derivative financial instruments to this category. All other financial assets are initially recognised at amortised cost and measured using the effective interest method.

Financial liabilities are initially recognised on the trading date at their fair value. If they are recognised at amortised cost, transaction costs are additionally included. Financial liabilities are derecognised when the contractual obligations underlying them are settled, cancelled or expire. They are also derecognised and replaced with a new liability if there is any significant change in the contractual cash flows as a result of a modification of the liability.

In the case of compound financial instruments, an embedded derivative must be separated from its host contract if its economic characteristics and risks are not closely linked to those of the host contract, if a comparable separate instrument would match the definition of a derivative and if the compound instrument is not measured at fair value through profit and loss. If an embedded derivative is separated, the components are recognised and measured separately in accordance with the applicable guidance.

Retirement benefit provisions

In the past, the Group had extensive defined benefit plans for former members of the Management Board and employees as well as their family members at individual subsidiaries. These are now only available to a small number of employees. The defined benefit obligations are calculated annually by a recognised actuary using the projected unit credit method.

The amount to be carried as a liability is the sum total of the present value of the defined benefit obligation. A non-nettable reimbursement claim is reported within other assets. Any additions or reversals are recognised through equity if the reimbursement claim changes accordingly. Any additional effects are included within net interest income/expense.

Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation is possible despite uncertainty as to the amount or timing. Other provisions are recognised at the amount which can reasonably be assumed to be payable to settle the present obligation on the reporting date or, in the event of the transfer of the obligation to a third party, on the date of transfer. Provisions due for settlement in more than one year are discounted where a material interest effect is involved.

Contingent liabilities

Contingent liabilities include possible obligations based on past events, which will only be substantiated by future events or for which an outflow of resources is not probable or the amount cannot be estimated with sufficient reliability. Contingent liabilities are not recognised in the balance sheet.

Revenue recognition

The Group recognises income from leases on a straight-line basis in accordance with IFRS 16 over the term of the lease as well as income received from rechargeable utility and incidental costs which in accordance with IFRS 15 and on the basis of the principal method are recognised over the period in which the service is performed, i.e. mostly the date on which the expense in question is recognised. Land tax and building insurance do not constitute separately identifiable performance obligations offering the tenant a distinct benefit. For this purpose, the agreed remuneration is allocated to the other identified contract components.

The overall remuneration is broken down into individual components on the basis of the relevant standalone selling prices, which primarily equal the nominal values of the rent and the utility and incidental costs.

The tenants pay TAG advances towards the utility costs regardless of the actual period of performance. The rechargeable utility costs and advance payments received for a given period, which mostly equals the calendar year, are duly settled in the following year.

Further income from the provision of services is reported in the period in which the service in question is provided.

Revenue from the sale of real estate is recognised when the risks and opportunities arising from ownership of the real estate have passed to the buyer (transfer of ownership rights, benefits and obligations arising from the real estate).

Interest income is recognised on a time-proportionate basis on the basis of the outstanding amount owing and the effective interest rate over the remaining time to maturity. Dividend income is recognised when the right to receive payment is established.

Government grants

The subsidiaries of TAG receive government grants in the form of investment and construction expenditure allowances. Government grants are recognised if there is reasonable certainty that the related conditions are met and the grant is received. Investment allowances granted in connection with the acquisition of assets are deducted from historical cost and recognised through profit and loss over the expected useful life of the asset by means of a reduced rate of depreciation. Construction allowances granted in connection with investment properties measured at fair value are included in other operating income.

Share-based payments

(i) Management Board
As of 2018, TAG's Management Board receives variable remuneration in the form of TAG shares under a long-term incentive plan (LTIP) based on total shareholder return (the sum of the increase in the share price plus dividends paid in the respective year) over a three-year period. LTIP is capped at TEUR 300 p.a. and is paid in the form of TAG treasury shares previously acquired by the Company on the market. No lock-down periods apply to the resale of the shares granted.

This variable remuneration component is measured at its fair value on 1 January of each year. The values have been determined by an independent expert on the basis of a Monte Carlo simulation. The resultant personnel expenses are recorded directly as an addition to the share premium and distributed on a straight-line basis over the vesting period, which equals the year in question.

No TAG shares were transferred under the LTIP in the year under review. The personnel expenses from the LTIP recognised in the income statement came to a total of TEUR 137 for all members of the Management Board in 2019 (previous year: TEUR 188).

More detailed information on the remuneration of the Management Board can be found in the section entitled "Remuneration system for the Management Board" in the combined management report.

(ii) Staff participation programme
As of 2018, all employees in the TAG Group have the opportunity of acquiring TAG shares at a preferential price once a year. These shares are previously acquired by the Company from the market as treasury stock. The discount on the share price offered to the employees is fixed at the beginning of the year. As is the case with the LTIP for the Management Board, it is calculated on the basis of the volume-weighted average price (VWAP) of TAG shares in Xetra trading over a period of two months prior to the end of the year. Certain caps apply to the shares which the employees may acquire on preferential terms. After acquisition, the shares may not be sold or encumbered for a period of three years unless the employment contract with the employee concerned expires at an earlier date.

The benefit granted to employees from the purchase of the discounted shares is also recognised at fair value. The resultant personnel expenses of TEUR 63 (previous year: TEUR 104) are recorded in full as an addition to the share premium. A total of 15,300 TAG shares were transferred to employees in the year under review (previous year: 32,885).

MATERIAL JUDGEMENTS AND ESTIMATES

Discretionary decisions

In applying the recognition and measurement methods, the Management Board has utilised the following accounting estimates which have a material effect on the amounts shown in the consolidated financial statements:

- The Management Board must determine as of each reporting date whether the Group's real estate is held on a long-term basis for rental, for investment or for the Group's own use or whether it is available for sale. TAG uses the fair value model in accordance with IAS 40 to measure its investment properties; alternatively, it could have selected the cost model. Real estate classified as property, plant and equipment is measured at (amortised) cost, while real estate held as inventories is measured at historical cost or, if lower, the net realisable amount.

- For the purposes of determining rental income, it is necessary to draw a distinction on the basis of whether the services recognised as utility or incidental costs arise from the originated provision of services as a principal or are sourced as an agent from a third party. Indicators for this assessment, which must be viewed in their entirety and are not cumulative, include the primary responsibility for performance of the service, the potential inventory risk of not being able to recharge the costs and the power to set the price of the service. Services are assumed to have been originated by the Group as the principal if higher revenue and matching rental expenses are recognised.

- When real estate asset companies are acquired, it is necessary to determine whether this acquisition is classified as a business combination within the meaning of IFRS 3 or whether individual assets and liabilities have been acquired. The purchase method of accounting as defined in IFRS 3 is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition plus non-controlling interests over the net assets of the subsidiary acquired is recognised directly in the income statement. The cost of business combinations is recorded in profit and loss. The acquisition and sale of real estate asset companies which do not engage in any business within the meaning of IFRS 3 are treated as a direct real estate purchase or sale (asset deal). In this case, the cost of the business combination is allocated to the individually identifiable assets and liabilities on the basis of their fair value. Accordingly, the acquisition of real estate asset companies does not give rise to any differences.

Estimates

The Group makes estimates and assumptions concerning the future. The resultant accounting estimates may deviate from the ensuing actual results. Estimates and assumptions entailing a significant risk in the form of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed below. All significant estimates are reviewed by the Management Board on an ongoing basis and adjusted prospectively if necessary.

- The fair value of investment properties is determined solely on the basis of the results of the independent valuers who are retained for this purpose. Measurements are calculated using the discounted cash flow method, i.e. discounted for expected future surplus income. The resultant gross capital value is converted into a net figure by deducting the transaction costs. The factors material for the valuation, such as future rent income, the applicable discount rates and transaction costs, are estimated by TAG in conjunction with the valuers. The fair values of these properties as of the reporting date stood at EUR 5,200.0m (previous year: EUR 4,666.7m).

- The estimate of the net realisable amount of real estate held as inventories entails uncertainty particularly with respect to the realisable selling prices. As of the reporting date, the book value of these properties stood at EUR 58.5m (previous year: EUR 52.3m).

- The applicable corporate tax plan is of crucial importance for assessing the recoverable value of the deferred income tax assets. These plans are prepared on the basis of various estimates, e.g. with regard to future income and expenses. Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that realisation of the related income tax benefit through future taxable profits is probable. As of the reporting date, the deferred income tax assets had a book value of EUR 49.7m (previous year: EUR 70.0m).

- With respect to other provisions, various assumptions have been made, e.g. with respect to the probability and amount of utilisation of provisions for repairs, damages and litigation risks as well as tax risks. For this purpose, account is taken of all information available as of the balance sheet date. Other provisions are valued at EUR 22.8m as of the reporting date (previous year: EUR 31.9m).

NOTES ON THE BALANCE SHEET

1. INVESTMENT PROPERTIES

The table below sets out the movements in the portfolio of investment properties:

Investment properties in TEUR	2019	2018
Amount on 1 January	**4,666,673**	**4,166,008**
Additions from real estate acquisitions	39,674	123,173
Portfolio investments	66,716	61,229
Transferred from inventory	0	88
Transferred to non-current assets held for sale	-6,055	-86,935
Transferred from non-current assets held for sale	18,332	0
Sales	-791	-26,752
Change in market value	415,444	429,862
Amount on 31 December	**5,199,993**	**4,666,673**

The book value includes the fair value of the real estate assets. Of this, an amount of roughly EUR 141.4m (previous year: roughly EUR 114.9m) relates to leasehold rights that are classified as financial investments and recognised as finance leases. In addition, the value of the lease liabilities of EUR 4.6m (previous year: EUR 4.5m) is added to the hereditary building rights.

The table below sets out the total modernisation costs in the total portfolio:

Modernisation costs in TEUR	2019	2018
Investment in investment properties	66,716	61,229
Investment in property held as inventory	7,651	8,332
Investment in assets held for sale	243	0
Total modernisation costs	**74,610**	**69,561**

Investment properties valued at EUR 4.8bn (previous year: EUR 4.3bn) are used to secure bank liabilities, primarily in the form of real estate liens and the assignment of rental receivables.

The income statement includes the following main amounts for investment properties:

Investment properties in TEUR	2019	2018
Rental income (current net rent)*	309,472	292,712
Rental expenses	-54,681	-53,092
Total	**254,791**	**239,620**

*In the 2019 financial year of this total TEUR 9,154 account for rents of hereditary building rights.

In rental business, rental contracts are generally subject to a statutory notice period of three months. There are no claims to minimum lease payments beyond this. Long-term leases with commercial tenants are of only subordinate importance.

The fair value of all of the Group's real estate assets was measured by CBRE GmbH as an independent expert effective 30 June and 31 December 2019. The independent experts are suitably qualified and experienced in the valuation of real estate. The valuation reports are based on:

- information provided by the Company on such matters as current rentals, maintenance and administration costs or current vacancy rates,
- assumptions made by the independent expert on the basis of market data and assessed in the light of his professional skills, e.g. future market rentals, typical maintenance and administration costs, structural vacancy rates and discount or capitalisation rates.

The information with which the independent expert is furnished and the underlying assumptions as well as the results of the valuation are analysed by Central Real Estate Controlling and the Chief Financial Officer.

The fair value of the investment properties is calculated using the discounted cash flow method in line with the International Valuation Standards. For this purpose, the expected future income surpluses for each period are discounted using a market-oriented discount rate for the property in question as of the valuation date. Whereas the cash proceeds are normally comprised of net rentals, the cash outflows chiefly include the property management costs borne by the owner.

The underlying detailed planning period is generally ten years. A potential discounted terminal value for the property in question is forecast for the end of this period, reflecting the most likely price which can be achieved at the end of this period. For this purpose, the discounted cash surpluses for the tenth year are capitalised at the exit rate to produce the perpetual annuity.

The sum total of the discounted cash surpluses and the discounted potential selling value equals the gross present value of the property in question. The net present value is calculated by deducting the costs arising in an orderly transaction.

The investment properties are normally measured on the basis of their fair value (Level 3).

The following table sets out the fair value of the investment properties per region and the material assumptions underlying this valuation method:

Segment	Berlin		Chemnitz		Dresden		Rhine/Ruhr		Erfurt	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Market value (in EUR m)	**772.8**	**683.3**	**347.1**	**316.5**	**527.1**	**472.4**	**317.7**	**290.1**	**666.7**	**587.7**
Net rent p.a. (in EUR m)	41.3	37.4	24.5	23.4	27.9	27.2	18.2	17.8	37.8	36.8
Vacancy (in %)	4.0	5.1	8.4	10.1	2.4	2.8	2.9	3.3	3.6	4.2
Valuation parameters (average)										
Net rent to market rent (in %)	88	88	94	95	92	94	92	93	92	90
Increase in market rent p. a. (in %)	1.1	1.1	0.6	0.6	1.0	1.0	1.1	1.1	1.1	1.1
Maintenance costs (in EUR/sqm)	8.9	8.7	8.8	8.6	9.1	9.0	9.1	9.1	9.5	9.4
Administration costs (in EUR per unit)	221	216	234	228	245	242	259	260	228	227
Structural vacancy (in %)	3.4	3.7	4.5	4.7	2.7	2.9	1.7	1.7	2.0	2.4
Discount rate (in %)	4.9	5.2	5.3	5.7	5.1	5.2	5.2	5.4	5.0	5.4
Capitalisation rate (in %)	3.8	4.1	4.7	5.1	3.9	4.1	4.0	4.2	3.9	4.3

Segment	Gera		Hamburg		Leipzig		Rostock		Salzgitter	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Market value (in EUR m)	**429.9**	**390.6**	**549.6**	**490.4**	**568.3**	**515.4**	**473.7**	**402.0**	**525.1**	**498.0**
Net rent p.a. (in EUR m)	32.2	30.2	29.2	30.1	36.0	34.6	28.4	21.7	34.9	34.2
Vacancy (in %)	7.7	9.1	4.8	4.0	6.3	5.0	4.1	3.9	5.5	5.1
Valuation parameters (average)										
Net rent to market rent (in %)	92	92	92	93	91	93	92	92	97	96
Increase in market rent p. a. (in %)	0.6	0.5	1.1	1.1	0.9	0.8	0.8	0.9	0.8	0.8
Maintenance costs (in EUR/sqm)	9.0	8.6	8.4	8.1	8.8	8.3	8.9	8.9	9.1	9.1
Administrative costs (in EUR per unit)	238	221	245	235	235	222	244	240	244	244
Structural vacancy (in %)	4.8	4.9	1.6	1.9	4.0	4.2	3.3	3.2	2.2	2.5
Discount rate (in %)	5.6	5.8	5.1	5.4	5.2	5.5	4.9	5.3	5.3	5.5
Capitalisation rate (in %)	4.9	5.2	3.8	4.2	4.3	4.7	4.1	4.4	4.5	4.6

In addition, there are activities that cannot be directly allocated to the regions and their respective managers. These take the form of the serviced apartments operated by the Group and commercial real estate assets. The market value of these investment properties equals EUR 21.9m (previous year: EUR 20.3m) and is therefore of only subordinate importance for the Group.

The valuation parameters shown are derived from the reports as of 31 December of each year. The valuation effective 31 December are based on the tenant lists and vacancies as of 30 September. Allowance is made for any fluctuation as of the applicable reporting date where there is evidence of any material differences.

The assumptions underlying the valuation of the fair value of the real estate are made by the independent valuer on the basis of his professional experience and are subject to uncertainty. The effects of possible fluctuations in the valuation parameters are shown in the following table in the form of a sensitivity analysis:

Sensitivity analysis in EUR m	2019	2018
Market value investment properties	5,199,993	4,666,673
Change in market value		
Market rent (+/- 2.0%)	79/-83	73/-70
Increase in market rent (+/- 0.2%)	308/-277	234/-256
Maintenance costs (-/+ 10%)	106/-106	92/-107
Administration costs (-/+ 10%)	47/-49	37/-38
Structual vacancy (-/+ 1.0%)	83/-84	11/-11
Discount and capitalisation rate (-/+ 0.5%)	759/-582	623/-491

Possible interdependencies between the individual parameters are of secondary importance or cannot be determined due to their complexity.

2. INTANGIBLE ASSETS

The table below analyses the movements in intangible assets:

Intangible assets in TEUR	2019	2018
Acquisition and production costs in TEUR		
Amount on 1 January	9,869	9,348
Additions	2,423	527
Disposals	-106	-6
Amount on 31 December	12,186	9,869
Cumulative depreciation in TEUR		
Amount on 1 January	8,889	7,523
Additions	774	1,372
Disposals	-106	-6
Amount on 31 December	9,557	8,889
Book value on 31 December	2,629	980

3. PROPERTY, PLANT AND EQUIPMENT

The table below sets out the movements in property, plant and equipment.

Property, plant and equipment in TEUR

Acquisition and production costs	Real estate	Operating and office equipment	Total
Amount on 01/01/2018	11,494	21,609	33,103
Additions	0	5,469	5,469
Disposals	0	-532	-532
Reclassification as investment properties	-88	0	-88
Amount on 12/31/2018	11,406	26,546	37,952
Additions	29	8,425	8,454
Disposals	0	-1,646	-1,646
Amount on 12/31/2019	11,435	33,325	44,760

Cumulative depreciation	Real estate	Operating and office equipement	Total
Amount on 01/01/2018	1,714	7,397	9,111
Additions	198	2,704	2,902
Reversal	-37	0	-37
Disposals	0	-390	-390
Stand per 12/31/2018	1,875	9,711	11,586
Additions	190	3,602	3,792
Reversal	-5	0	-5
Disposals	0	-1,540	-1,540
Amount on 12/31/2019	2,060	11,773	13,833
Book value on 12/31/2018	9,531	16,835	26,366
Book value on 12/31/2019	9,375	21,552	30,926

The real estate assets classified as property, plant and equipment are used in full to secure bank liabilities, primarily in the form of real estate liens and the assignment of rental receivables. They include hidden reserves, which equal the difference of EUR 9.7m (previous year: EUR 8.2m) between the book value and the fair value.

4. RIGHT-OF-USE ASSETS

The table below sets out the movements in the right-of-use assets:

Right-of-use assets in TEUR

Costs of acquisition	Real estate	Transportation	IT equipment	Total
First-time application of IFRS 16 per 1 Jan 2019	8,314	1,457	392	10,163
Additions	3	952	292	1,247
Depreciation	-1,148	-894	-188	-2,230
Amount on 12/31/2019	7,169	1,515	469	9,180

The Group leases office, storage and workshop space for its real estate business. In some cases, extension options may be exercised. However, these have not yet been included in the lease period applied. If these options were exercised, additional cash outflows of up to EUR 8.5m would have to be included in the measurement of the right-of-use assets. Leases that can be terminated at short notice are not included in the right-of-use assets. Operating and transaction costs have not been included as variable lease payments.

As a rule, motor vehicles are leased for a period of three years. This period also applies to individual IT items, for which a favourable purchase option is agreed and may be exercised at the end of the lease.

5. OTHER FINANCIAL ASSETS

Other financial assets primarily include non-controlling interests in non-listed real estate asset companies and closed-end real estate investment funds, which are measured at their fair value. In addition, 49% of the shares in a company recognised at equity were acquired in 2019.

This item breaks down as follows:

Other financial assets in TEUR	2019	2018
Investments	8,624	8,162
Investments in associates – at equity	16	0
Security deposits	363	0
Total	9,003	8,162

The security deposits paid primarily relate to leased office space.

6. CURRENT AND DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets (+) and liabilities (-) break down as follows:

	2019		2018		
Deferred income taxes in TEUR	Active	Passive	Active	Passive	Change
Unused tax losses (incl. interest carried forward)	48,904	0	64,725	0	-15,821
Investment properties	382	-514,246	542	-437,660	-76,746
Property, plant and equipment	21	-2,948	0	-1	-2,926
Other financial assets	4	-1,408	4	-1,317	-91
Liabilities	3,319	-3,561	313	-4,242	3,687
Provisions	1,577	-427	2,509	-295	-1,064
Derivative financial instruments	21,085	0	11,918	0	9,167
Total	75,292	-522,590	80,011	-443,515	-83,794
Offset	-25,563	25,563	-10,059	10,059	–
Deferred income taxes recorded on the face of the balance sheet	49,730	-497,027	69,952	-433,456	–
				Change in cash 2019	-83,794

The change in deferred income taxes on derivative financial instruments primarily stems from the conversion right measured at fair value in connection with the convertible bond issued by TAG.

Income taxes recorded in the income statement break down as follows:

Income taxes in TEUR	2019	2018
Current income tax expense	-7,170	-4,031
Deferred income taxes	-83,794	-49,974
Total	-90,964	-54,005

Current income taxes include tax expenses for the year under review as well as a tax refund claim for earlier years of TEUR 758 (previous year: TEUR 50).

Deferred income tax liabilities of TEUR 67,973 (previous year: TEUR 64,806) arise from changes in temporary differences. Expenses from changes in deferred income taxes on unused tax losses stands at TEUR 15,821 (Iprevious year: Income TEUR 14,778).

As in the previous year, the income tax refund claims shown in the consolidated balance sheet predominantly comprise refunds of investment income tax for prior years. Income tax liabilities include income tax expenses for the year under review of TEUR 6,979 (previous year: TEUR 1,210). The other income tax liabilities relate to income taxes for earlier years.

Expected and actual net tax expense is reconciled as follows:

Actual net income tax expense in TEUR	2019	2018
Earnings before income taxes (EBT after other taxes)	547,338	542,214
Expected net tax expense (32.275%)	-176,653	-175,000
Reconciled with tax effects from:		
Income and expenses from earlier years	1,034	4,562
Impairment of deferred income taxes and utilisation of previously unrecognised unused tax losses/interest carried forward	-8,709	19,179
Tax-free returns and non-deductible expenses	-2,467	-2,560
Effects of trade tax exemption	96,000	101,419
Net gains/losses from consolidation	0	5
Others	-169	-1,610
Actual net income tax expense	**-90,964**	**-54,005**

The effects of trade tax exemption are primarily related to the extended trade-tax deduction for real estate. Companies which generate their income solely from the management of their own real estate are able to deduct this income from their trade income with the result that in such cases they effectively only pay corporate tax plus the solidarity surcharge.

The theoretical tax rate is calculated as follows:

Theoretical tax rate in %	2019	2018
Corporate tax	15.000	15.000
Solidarity surcharge	0.825	0.825
Trade tax	16.450	16.450
Total	**32.275**	**32.275**

The notional Group tax rate for the year under review stands at 16.6% (previous year: 10.0%).

Excluded from deferred income tax assets are unused corporate tax losses of EUR 110m (previous year: EUR 112m) and unused trade tax losses of EUR 177m (previous year: EUR 113m) as well as interest carried forward of EUR 3m (previous year: EUR 7m) as utilisation currently does not appear to be likely.

The sum total of unrecognised temporary differences in connection with shares in subsidiaries and associates stands at EUR 138m (previous year: EUR 83m). The Group does not expect any strain from this as there are currently no plans to sell these shares.

7. PROPERTIES HELD AS INVENTORIES AND OTHER INVENTORIES

The changes arising in the year under review are set out in the following table:

Properties held as inventories in TEUR	2019	2018
Amount on 1 January	**52,296**	**48,149**
Additions	7,651	9,278
Impairments	-3	-182
Reversal	59	362
Disposals	-1,551	-5,311
Amount on 31 December	**58,452**	**52,296**

Investment properties recognised as inventories valued at EUR 34.2m (previous year: EUR 4.7m) are used to secure bank liabilities, primarily in the form of real estate liens and the assignment of rental receivables. This item includes real estate assets of EUR 21.8m (previous year: EUR 46.4m) which are expected to be sold only after more than twelve months.

The real estate assets held as inventories include hidden reserves arising from the difference of EUR 75.4m (previous year: EUR 51.7m) between the book value and the fair value.

Directly attributable borrowing costs of TEUR 231 (previous year: TEUR 456) arising from a development project were capitalised.

Other inventories primarily comprise heating material.

8. TRADE RECEIVABLES

Trade receivables break down as follows:

Trade receivables in TEUR	2019	2018
Rent receivables	16,599	13,397
Receivables from the sale of properties	116	124
Others	717	656
Total	**17,432**	**14,177**

As in the previous year, receivables from the sale of land are secured by cash deposits.

Rental receivables include an amount of EUR 9.4m (previous year: EUR 5.2m) arising from the netting of gross receivables of EUR 140.1m (previous year: EUR 140.9m) under rechargeable but not yet invoiced utility and incidental costs with the corresponding advance payments received from the tenants. Utility and incidental costs for which statements of account have been issued account for receivables of TEUR 2,649 (previous year: TEUR 4,452).

Impairments for expected credit losses on trade receivables are analysed in the following table:

Individual impairments in TEUR	2019	2018
Amount on 1 January	8,459	11,082
Utilised	-2,516	-4,111
Reversed	-2,120	-2,366
Additions	4,823	3,681
First-time consolidation	0	173
Amount on 31 December	8,645	8,459

In the year under review, impairments (individual adjustments and derecognised amounts) of trade receivables of TEUR 4,386 (previous year: TEUR 4,441) were recognised in the income statement due to insufficient credit worthiness on the part of tenants.

9. OTHER CURRENT ASSETS

Other current assets break down as follows:

Other current assets in TEUR	2019	2018
Rechargeable retirement benefit obligations	4,363	4,077
Loans to shareholders with non-controlling interests	3,843	3,857
Excess payments to suppliers	2,045	2,097
Others	694	1,034
Total	10,996	11,065

Loans to shareholders with non-controlling interests are secured in full by a pledge on shares in real estate asset companies.

10. PART PAYMENTS MADE TOWARDS BUSINESS COMBINATIONS

Part payments made towards business combinations refer to the purchase price deposited in an escrow account for the acquisition of all of the shares in Vantage Development S.A. in Poland. The purchase contract was signed on 8 November 2019, with the ownership rights and liabilities transferring on 13 January 2020.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all bank accounts and overdraft facilities with banks due for settlement within three months of the reporting date as well as a small volume of cash in hand. They are reconciled with the cash flow components of cash and cash equivalents in the section entitled “Notes on the cash flow statement”.

12. NON-CURRENT ASSETS HELD FOR SALE AND RELATED LIABILITIES

Non-current assets held for sale are composed solely of real estate assets previously classified as investment properties that are outside the Group's strategic core portfolio and are therefore to be sold.

The table below sets out the movements in this item:

Non-current assets held for sale in TEUR	2019	2018
Amount on 1 January	86,995	51,502
Reclassification from investment properties	6,055	86,935
Capitalized maintenance	243	0
Changes in fair value	-1,402	0
Sales	-39,023	-51,442
Reclassification from investment properties	-18,332	0
Amount on 31 December	34,536	86,995

Sales contracts have already been signed for a portion valued at EUR 9.9m (previous year: EUR 32.8m), with ownership, rights of use and liabilities expected to be transferred in the first half of 2020. The assets are allocated to Level 3 of the fair value hierarchy and their value measured on the basis of the independent expert's report. The procedure underlying the calculation as well as the main valuation inputs are described in the notes on investment properties.

Liabilities in connection with the assets held for sale comprise lease liabilities under hereditary building rights.

13. EQUITY

Share capital, authorisation of the Management Board to issue of new shares (authorised and contingent capital) as well as share buybacks

The Company's fully paid-up share capital is unchanged over the previous year and stands at EUR 146,498,765.00. As in the previous year, it is divided into 146,498,765 no-par-value shares with equal voting rights. They are bearer shares.

In accordance with a resolution passed at the Annual General Meeting on 7 May 2019, new shares were issued using the Company's own funds, followed by an ensuing ordinary reduction in the Company's capital. In a preliminary step, an amount of EUR 750m from the non-distributable share premium in accordance with Section 272 (2) Nos. 1 to 3 of the German Commercial Code was converted into issued capital. In a subsequent step, the increased issued capital was reduced to its original amount. With this measure, the amount of the capital reduction of EUR 750m was converted into a distributable share premium in accordance with Section 272 (2) No. 4 of the German Commercial Code. The increase in contingent capital resulting from this measure through the operation of the law was reduced to the original amount under the same resolution. In the year under review, an amount of EUR 250m was withdrawn from the distributable share premium in connection with the preparation of the annual financial statements.

In a resolution passed at the Annual General Meeting held on 23 May 2018, the shareholders approved the creation of "Authorised capital 2018" and authorised the Management Board subject to the Supervisory Board's approval to increase the Company's share capital by a total amount of no more than EUR 29m by issuing up to 29m no-par-value ordinary shares on a cash and/or non-cash basis once or on repeated occasions on or before 22 May 2023. The Management Board has so far not made any use of this authorisation.

In a resolution passed at the Annual General Meeting held on 23 May 2018, the Contingent Capital 2017/I approved at the Annual General Meeting of 16 May 2017 was replaced by "Contingent Capital 2018/I". In this connection, the Management Board was authorised to increase the Company's share capital by up to EUR 29m through the issue of up to 29m new no-par bearer shares on a contingent basis. The contingent capital will be used to grant shares to the holders of convertible and/or option bonds which are issued by the Company or any of its directly or indirectly affiliated subsidiaries in accordance with the authorisation granted on 14 June 2013, 19 June 2015, 16 May 2017 or 23 May 2018. The new shares will be issued at the conversion or option price determined in accordance with the above mentioned authorisation resolutions. The contingent capital shall be utilised only to the extent that the conversion and option rights are exercised or corresponding obligations are to be settled and only if no other method of settlement is applied.

A resolution was passed at the Annual General Meeting held on 17 June 2016, authorising the Company to buy treasury stock in an amount of up to 10% of the share capital existing upon the authorisation taking effect - or if less - upon the authorisation being exercised on or before 16 June 2021. The authorisation may not be utilised by the Company to trade in treasury stock. In addition to the customary statutory possibilities for use, the shares may also be allocated and transferred to members of the Management Board in connection with the determination of variable remuneration.

The Company made use of this authorisation to buy back its own shares via the stock exchange and issued some of them again to settle the staff participation programme. As of 31 December 2019, the Company held a total of 161,815 treasury shares (previous year: 177,115). Reported subscribed capital less treasury stock thus stands at EUR 146,336,950.00 (previous year: EUR 146,321,650.00).

Reserves

The share premium primarily contains the premium on the equity issues executed in former years as well as withdrawals to equalise the net losses for the year recorded in accordance with German commercial law. In addition, effects from increases or decreases in shares without any change of status are allocated to this item.

Retained earnings comprise the legal reserve in accordance with the provisions contained in Section 150 of the German Stock Corporation Act as well as the cumulative effects arising from the initial application of IFRS 9.

The hedge accounting reserve has in the past included gains and losses from interest hedges (cash flow hedges). It broke down as follows after the deduction of deferred income tax effects pending full settlement of these instruments in 2018:

Hedge accounting reserve in TEUR

Amount on 01/01/2018	**-112**
Unrealised gains and losses	418
Recorded in profit and loss	-252
Deferred income tax effect	-54
Amount on 12/31/2018	**0**

The amounts reported within net borrowing costs chiefly concerned amounts recycled from the hedge accounting reserve to profit and loss due to the execution of the expected transaction.

Dividend

Subject to the Supervisory Board's consent, the Management Board of TAG plans to propose a dividend of EUR 0.82 per share for 2019 (previous year: EUR 0.75 per share) for approval by the shareholders.

Non-controlling interests

This item refers to the shares held by minority shareholders in the equity and net profit or loss for the year of the consolidated subsidiaries Any compensation accruing to these shareholders in the form of annual guaranteed dividends over an interminable minimum period is recognised within other non-current liabilities.

The net profit attributable to the equity holders of the parent company equals the difference between the consolidated net profit before non-controlling interests and the non-controlling interests reported in the income statement.

14. FINANCIAL LIABILITIES

Changes in financial liabilities are set out below. In this connection it should be noted that lease liabilities rose by TEUR 10,163 as of 1 January 2019 due to the initial application of IFRS 16.

					Other		
Financial liabilities in TEUR	01/01/2019	Cash flow from financing activities	Changes in fair value	Non-cash changes	Interest expenses	paid interest	12/31/2019
Liabilities to banks	1,855,544	48,908	0	0	41,081	-44,337	1,901,196
Liabilities from corporate bonds and other loans	285,763	116,287	0	0	4,676	-3,750	402,976
Liabilities from convertible bonds	257,527	0	0	0	3,014	-1,666	258,875
Derivative financial instruments	42,005	0	29,503	0	0	0	71,508
Lease liabilities	14,645	-2,031	0	1,160	267	0	14,041
Other financial liabilities	26,587	-1,863	0	871	184	0	25,779
Total	**2,482,071**	**161,301**	**29,503**	**2,031**	**49,222**	**-49,753**	**2,674,375**

					Other		
Financial liabilities in TEUR	01/01/2018	Cash flow from financing activities	Changes in fair value	Non-cash changes	Interest expenses	paid interest	12/31/2018
Liabilities to banks	1,935,436	-84,216	0	0	43,231	-38,907	1,855,544
Liabilities from corporate bonds and other loans	322,221	-41,764	0	0	19,719	-14,413	285,763
Liabilities from convertible bonds	256,175	0	0	0	3,004	-1,652	257,527
Derivative financial instruments	8,358	2,838	30,974	0	278	-443	42,005
Other financial liabilities	26,178	3,638	1,128	0	999	-874	31,069
Total	**2,548,368**	**-119,504**	**32,102**	**0**	**67,231**	**-56,289**	**2,471,908**

Liabilities to banks

Liabilities to banks break down as follows: For the most part, they are collateralised by real property liens and the assignment of rental income. The banks may only liquidate this collateral in the event of a material breach of the loan contract (e.g. failure to comply with financial covenants).

Liabilities under corporate bonds and other loans

TAG issued two corporate bonds in 2018. The first one, corporate bond 2018/2023 for EUR 125m has a term of five years and a coupon of 1.25% p.a. The second one, corporate bond 2018/2025 likewise for EUR 125m has a term of seven years and a coupon of 1.75%. Both corporate bonds are unsecured.

In addition, a borrower's note loan for a total of EUR 102m with maturity tranches of five years (EUR 59m) and seven years (EUR 43m) was issued in 2019 and is subject to interest of 1.125% and 1.250% p.a. respectively.

Since 2018, short-dated commercial papers have been issued in an amount of up to EUR 50m as a special type of corporate bond with a term customarily of between one and six months. As of 31 December 2019, an amount of EUR 50m was outstanding in this connection (previous year: EUR 35.0m).

Convertible bonds

TAG issued a convertible bond with a nominal value of EUR 262m in 2017. With a term of five years and a coupon of 0.625% p.a., it is unsecured and has a term of five years. The conversion price stood at EUR 17.6884 on the reporting date (previous year: EUR 17.8522).

Derivative financial instruments

Derivative financial instruments include the fair value of TEUR 65,329 (previous year: TEUR 36,926) of the conversion right arising from the convertible bond as well as the purchase price guarantees for non-controlling interests in subsidiaries with a fair value of EUR 6,179m (previous year: EUR 5,078m).

Lease liabilities and other financial liabilities

Other non-current liabilities primarily consist of lease liabilities of TEUR 11,647 (previous year: TEUR 4,482) and liabilities of TEUR 5,388 under guaranteed dividends (previous year: TEUR 6,367) payable to non-controlling shareholders. Other current liabilities also include lease liabilities and guaranteed dividends due for settlement within one year as well as the tendering rights of non-controlling shareholders.

The non-cash changes in lease liabilities relate to new contracts and reclassifications. The non-cash changes in other financial liabilities relate to interest on the compensation claim arising from the tender offer. The non-discounted lease liabilities stand at TEUR 15,473 (previous year: TEUR 5,696).

15 RETIREMENT BENEFIT PROVISIONS

Retirement benefit provisions equal the net liabilities under defined benefit plans. This item breaks down as follows:

Retirement benefit provisions in TEUR	Liabilities*	Reimbursement claim
Recognised on the face of the balance sheet as of 01/01/2018	**5,942**	**4,258**
Reversal recognised (within profit)	-105	0
Reimbursement recognised (within equity)	23	23
Pension payments	-355	-204
Amount on 12/31/2018	**5,505**	**4,077**
Recognised appropriation	151	0
Reimbursement recognised (within equity)	489	489
Pension payments	-346	-203
Amount on 12/31/2019	**5,799**	**4,363**

*The liabilities equal the present value of the defined benefit obligation as of the reporting date. The present value amounted to TEUR 6,132 on 31 Dec 2016, TEUR 6,020 on 31 Dec 2015 and TEUR 6,317 on 31 Dec 2014.

The refund claim reported within other current assets concerns claims towards a subsidiary acquired in earlier years for which there is a right of recovery against the former shareholder.

Of the retirement benefit provisions, an amount of TEUR 339 (previous year: TEUR 344) is due for payment within one year. These amounts together with other retirement benefit obligations are reported within non-current liabilities for the sake of simplicity.

The change in the year under review is primarily due to interest expense as well as actuarial gains or losses. As the change in the reimbursement claim corresponding to part of the liability is subject to the same factors, the effects are mostly reported within equity. Any additional effects are included within interest expense or income, as the case may be.

The table below sets out the parameters used as a basis for calculating the retirement benefit provisions:

Retirement benefit provisions	2019	2018
Interest rate in %	0.86	1.81
Pension adjustment in %	2.00	2.00
Duration (in years)	10	10
Retirement age	In accordance with the German Social Code - Book VII	

The Klaus Heubeck 2018 G mortality tables were used as the basis for biometric calculations.

16. OTHER PROVISIONS

Other provisions break down as follows:

Other provisions in TEUR	Amount 01/01/2019	Utilised	Reversed	Added	Amount 12/31/2019
Outstanding invoices	19,817	18,475	735	14,266	14,873
Damages and litigation risk	4,343	1,607	41	305	3,000
Bonus	1,275	1,264	11	1,375	1,375
Legal, consulting and auditing costs	811	770	41	827	827
Risks from real estate transfer tax	2,300	0	2,300	0	0
Others	3,367	1,674	36	1,092	2,749
Total	**31,913**	**23,790**	**3,164**	**17,865**	**22,824**

Provisions for outstanding invoices primarily relate to invoices not yet received as of the reporting date for ongoing maintenance and modernisation mostly expected to be settled in the short term.

Provisions for compensation claims and litigation risks predominantly relate to possible claims arising from construction work completed in earlier years, settlement of which depends on the outcome of currently still pending litigation. No allowance was made for interest effects for materiality reasons.

The provisions for realty transfer tax related to risks arising from the acquisition of equity interests in 2012. These provisions were reversed in the year under review as the claims had since become time-barred. The contingency liabilities that had been recognised in the previous year in this connection from the acquisition of shares in 2012 have also been reversed for the same reason.

17. TRADE PAYABLES

Trade payables primarily comprise net obligations under advance payments towards utility costs less those utility costs that have not yet been invoiced as well as liabilities to suppliers.

Trade payables include an amount of EUR 16.2m (previous year: EUR 7.8m) arising from the netting of prepayments of EUR 146.8m (previous year: EUR 143.5m) made by the tenants in settlement of corresponding receivables from rechargeable but not yet invoiced utility and incidental costs.

18. OTHER CURRENT LIABILITIES

This item breaks down as follows:

Other current liabilities in TEUR	2019	2018
Put options of non-controlling shareholders	19,057	18,943
Tenant credit from advance payments	10,312	9,938
Tax liabilities	3,783	6,153
Lease liabilities	2,394	0
Obligations from associated companies	2,026	2,160
Guaranteed dividend	1,333	1,277
Deferrals and accruals	623	1,076
Others	1,473	2,016
Total	**41,001**	**41,563**

The liabilities under put rights held by non-controlling shareholders concern a settlement offer submitted in 2016 to the external shareholders of TAG Colonia-Immobilien AG, under which they were to transfer their shares to a 100% subsidiary of TAG in consideration of a cash payment of EUR 7.19 per share. This right remains effective until the end of the pending shareholder action.

NOTES ON THE INCOME STATEMENT

19. NET RENTAL INCOME

The income from rental business breaks down into rental income recognised in accordance with IFRS 16 and the income recognised in accordance with IFRS 15 for external utility and incidental costs.

Rental income breaks down as follows:

Rental income in TEUR	2019	2018
Net-rent	314,967	302,165
Pro rata remuneration of property tax and building insurance	13,220	12,182
Rental income according to IFRS 16	**328,187**	**314,347**
External operational- and anciallary-costs re-charged to tenants	74,204	82,682
Pro rata remuneration of property tax and building insurance	3,115	3,333
Costs re-charged to tenants according to IFRS 15	**77,319**	**86,015**
Total	**405,506**	**400,362**

Together with net income from sales and the provision of services, the income recognised in accordance with IFRS 15 comprises income of TEUR 170,260 (previous year: TEUR 215,129) from contracts with customers.

Rental expenses break down as follows:

Rental expenses in TEUR	2019	2018
Maintenance expenses	33,344	34,305
Non-recoverable charges	10,253	9,846
Ancillary costs of vacant real estate	7,894	7,817
Non-rechargeable expenses	**51,491**	**51,968**
Rechargeable costs, taxes and insurance	90,539	98,197
Total	**142,030**	**150,165**

20. NET INCOME FROM SALES

Net income from sales breaks down as follows:

Income from sales in TEUR	2019	2018
Revenues from the sale of investment properties	39,938	78,487
Expenses on the sale of investment properties	-39,838	-78,456
Net income from the sale of investment properties	**100**	**31**
Net income from the sale of properties held as inventory	1,812	5,867
Revenues from the sale of inventories	-2,317	-6,029
Net income from the sale of inventories	**-505**	**-162**
Total	**-405**	**-131**

21. NET INCOME FROM SERVICES

The income and expenses attributable to service business are spread across the various services provided by the Group as follows:

Income from property services in TEUR	2019	2018
Energy services	21,928	20,730
Facility management	12,650	8,779
Multimedia services	8,669	8,307
Craftsmen services	3,761	3,154
Rechargeable land taxes and building insurance	1,696	1,495
Other	2,487	2,295
Total	**51,191**	**44,760**
Impairment losses	-487	-369
Expenditure of property services	-29,668	-26,720
Net income from property services	**21,036**	**17,671**

Under IFRS 15, land taxes and building insurance do not constitute services provided by TAG and are reported separately solely for information purposes. With these contractual components, the agreed consideration is allocated to the other identified components of the contract proportionately.

Further service expenses are recognised within the relevant items of the income statement (e.g. personnel costs).

22. OTHER OPERATING INCOME

The table below analyses the main items of other operating income:

Other operating income in TEUR	2019	2018
Reversal of provisions for real estate transfer tax risk	2,300	6,200
Government grants	1,078	519
Reversal of other provisions	863	245
Derecognition of liabilities	755	920
Other out-of-period income	438	627
Other	180	1,119
Total	**5,614**	**9,630**

23. CHANGES IN THE FAIR VALUE OF INVESTMENT PROPERTIES AND PROPERTY HELD AS INVENTORIES

This item comprises gains and losses from the fair-value valuation of investment properties, the effects arising from the ongoing valuation of properties held as inventories and the net fair value gains and losses on the revaluation of properties held for sale. It breaks down as follows:

Changes in the fair value in TEUR	2019	2018
Investment properties	415,444	429,862
Properties held as inventories	56	180
Non-current assets held for sale	-1,402	0
Total	**414,098**	**430,042**

24. PERSONNEL EXPENSES

Personnel expenses break down as follows:

Personnel expenses in TEUR	2019	2018
Employees in operations	26,083	24,723
Administration and central functions	11,532	9,886
Caretakers	10,284	7,160
Craftsmen	2,406	1,946
Total	**50,305**	**43,715**

25. OTHER OPERATING EXPENSES

The table below analyses the main items of other operating expenses:

Other operational expenditures in TEUR	2019	2018
Legal, consulting and auditing costs (incl. IT consulting)	6,695	5,621
Cost of premises	1,592	2,073
IT costs	1,615	1,737
Telephone costs, postage, office material	1,551	1,523
Travel expenses (incl. motor vehicles)	1,462	1,416
Other ancillary staff costs	1,212	1,048
Insurance	524	484
Incidental cost of monetary transactions	491	554
Contributions and donations	478	425
Advertising	459	417
Investor Relations	433	552
Other	1,382	1,262
Total	17,894	17,112

In the financial year 2019, costs of premises included short-term leases not capitalised of TEUR 401. Variable lease payments not included in the valuation of the lease liabilities amount to TEUR 370.

In the financial year 2018, other operating expenses also included payments under operating leases of TEUR 3,015 for IT hardware, motor vehicles and office space.

26. NET FINANCE INCOME/EXPENSE

Net finance income/finance expense has the following structure:

Financial result in TEUR	2019	2018
Investment income	1,374	1,774
Interest income	480	1,193
Interest expense	-79,440	-98,989
Finance income/expense	**-77,586**	**-96,022**
Non-cash interest from bonds	1,402	1,652
Premature termination compensation	174	9,811
Other non-cash items (e.g. derivatives)	30,377	29,991
Net finance income/expense (cash, without one-time invoice)	**-45,633**	**-54,568**

The share of profit of associates includes changes in the fair value of investments of TEUR 509 (previous year: TEUR 1,142) measured at fair value through profit and loss as well as dividends and distributions received of TEUR 566 (previous year: TEUR 632). It also includes the net profit/loss of associates.

Interest income refers to the interest income calculated using the effective interest method from financial assets measured at amortised cost. In the previous year, it also included income of TEUR 105 from the valuation of retirement benefit provisions.

Interest expense breaks down as follows:

Interest expense in TEUR	2019	2018
Interest expense under the effective interest method Financial liabilities recognised at amortised cost	49,457	67,228
Net change in fair value Derivative financial instruments valued at fair value through profit and loss	29,503	31,227
Other financial expenses	480	534
Total	79,440	98,989

27. EARNINGS PER SHARE

Earnings per share break down as follows:

Earnings per share	2019	2018
Consolidated net profit (in TEUR)		
Consolidated net profit excluding non-controlling interest	446,259	480,967
Interest expense on convertible bonds	21,277	22,750
Consolidated net profit excluding non-controlling interest (diluted)	467,536	503,717
Number of shares (in thousands)		
Weighted number of shares outstanding	146,333	146,341
Effect of conversion on convertible bonds	14,775	14,650
Effect of management compensation	43	25
Weighted number of shares (diluted)	161,151	161,016
Earnings per share (in EUR)		
Basic	3.05	3.29
Diluted	2.90	3.13

Diluted earnings per share include the potential correction to consolidated earnings and the number of shares outstanding when convertible instruments or options are exercised. In TAG's case, the dilution effect primarily arises from "potential shares" under convertible bonds.

NOTES ON THE CASH FLOW STATEMENT

Cash flows are divided into cash flows from operating activities, cash flows from investing activities and cash flows from financing activities in the year under review. Cash flows from investing and financing activities are presented directly, while cash flows from operating activities are calculated using the indirect method

The cash flow components of cash and cash equivalents comprise only freely available cash and cash equivalents and are reconciled with the cash and cash equivalents reported in the balance sheet as follows:

Cash and cash equivalents in TEUR	2019	2018
Cash and cash equivalents as reported on the balance sheet	91,306	91,718
Cash at banks subject to drawing restrictions	-2,620	-2,702
Cash and cash equivalents	**88,686**	**89,016**

The amount reported refers to incoming payments subject to temporary drawing rights from sales as well as bank balances pledged in the short term for maintenance activities.

The acquisition of real estate asset companies was funded solely through cash and cash equivalents; in this connection, cash and cash equivalents of TEUR 1,001 were acquired.

Further information on cash flows and non-cash changes in liabilities from financing activities including lease liabilities can be found in Note 14. Financial Liabilities.

NOTES ON SEGMENT REPORTING

TAG manages its residential portfolio on a regional basis and has divided its real estate holdings in the "Rental" segment into the following regions: Berlin, Chemnitz, Dresden, Erfurt, Gera, Hamburg, Leipzig, Rhine-Ruhr, Rostock, Salzgitter and other activities. The "other activities" segment is composed of various rented commercial real estate assets as well as the serviced apartments operated by TAG. The business activities of these segments are based on the rental of portfolio properties to TAG customers. Accordingly, they are reported at an aggregated level within the rental segment.

The „Services“ segment includes the business activities from the internal service companies. The segment was classified as a separate segment by TAG in 2019 for the first time. This classification was based on the revenues generated from this segment. For some years now, TAG is increasing its activities in auxiliary services related to the rental business. The development of this business areas has already been reported to management in the past, however, as revenues were deemed not material, TAG did not disclose separate information. In 2019, revenues exceeded relevant thresholds for the first time. Accordingly, disclosures now include aggregated information for both segments Rental and Services. The comparative figures for 2018 of the segment reporting have been adjusted to reflect the new classification into segments.

Segment reporting is consistent with internal reporting, which fundamentally conforms to IFRS accounting requirements (with the exception of the reconciliation of segment earnings II with EBIT described below). Segment earnings I are derived from net rental income (net rents) and the services provided as well as the related expenses. Segment earnings II includes the attributable personnel expenses and other income and expenses and is derived as follows:

Segment report		Rental	Services	Total
Segment revenues	**2019**	**314,967**	**49,495**	**364,462**
	2018	302,165	43,265	345,430
Segment expenses	**2019**	**-80,766**	**-28,459**	**-109,225**
	2018	-82,109	-25,594	-107,703
Rental expenses	**2019**	**-12,141**	**0**	**-12,141**
	2018	-10,360	0	-10,360
Investment costs	**2019**	**-66,117**	**0**	**-66,117**
	2018	-69,259	0	-69,259
Impairment losses on receivables	**2019**	**-3,899**	**-487**	**-4,386**
	2018	-4,072	-369	-4,441
Service expenses	**2019**	**0**	**-27,972**	**-27,972**
	2018	0	-25,225	-25,225
Other revenues	**2019**	**1,391**	**0**	**1,391**
	2018	1,582	0	1,582
Segment result I	**2019**	**234,201**	**21,036**	**255,237**
	2018	220,056	17,671	237,727
Personnel expenses	**2019**	**-17,472**	**-15,245**	**-32,717**
	2018	-16,421	-11,720	-28,141
Other income / other expenses	**2019**	**-3,134**	**2,180**	**-954**
	2018	-2,423	954	-1,469
Segment result II	**2019**	**213,595**	**7,971**	**221,566**
	2018	201,212	6,905	208,117
Segment assets	**2019**	**5,248,270**	**0**	**5,248,270**
	2018	4,815,494	0	4,815,494

Revenues arising from business activities between the segments are primarily generated by internal services. TAG's service companies regularly provide services for the portfolio companies of the Rental segment.

Reflecting internal reporting practices, Rental segment revenue is reported solely on a net basis ("net rent"). Note 19. Net rental income within the notes on the consolidated income statement reconciles income from rental business with segment revenue/rental income.

In line with internal reporting practices, revenues in the services segment comprise the revenues generated by the internal service companies less land tax and building insurance in accordance with IFRS 15. Segment revenues are reconciled with service income in Note 21. Net income from services in the notes to the consolidated income statement.

The following table reconciles segment earnings II with EBT as stated in the income statement:

Segment earnings in TEUR	2019	2018
Segment earnings II	**221,566**	**208,117**
Capitalised investment costs not deducted from segment earnings	32,773	33,184
Non-rechargeable ancillary costs of vacant real estate	-7,894	-7,817
Net gains/losses from sales	-405	-131
Fair value changes in investment properties and valuation of properties held as inventory	414,098	430,042
Non-allocated staff costs	-17,588	-15,574
Depreciation	-6,797	-4,274
Other non-allocated income and expenses	-10,829	-5,311
Net finance expense	-77,586	-96,022
EBT	**547,338**	**542,214**

DISCLOSURES ON FINANCIAL INSTRUMENTS

RISKS AS A RESULT OF FINANCIAL INSTRUMENTS

The Group's business activities expose it to various risks of a financial nature. These risks comprise market, liquidity and loan risks. In accordance with the guidelines issued by the Company's managing bodies, risk management is based in the central finance department. The counterparty default risks for derivative financial instruments and financial transactions are minimised by selecting investment-grade financial institutions.

CAPITAL RISK MANAGEMENT

The Group manages its capital with the aim of maximising income from its investments by optimising its equity and debt capital. In this connection, precautions are taken to ensure that all Group companies are able to operate in accordance with the going-concern assumption.

As a joint stock company, TAG is subject to the minimum capital requirements specified in the German Joint Stock Company Act. In addition, the Group is subject to the customary and industry-standard minimum capital requirements stipulated by the financial services industry, particularly with respect to the finance of specific items of real estate. Compliance with these requirements is monitored on an ongoing basis and was ensured at all times in the year under review as well as in the previous year.

Risk management reviews the Group's capital structure on a quarterly basis in the light of the cost of capital and the risk inherent in each capital class. In order to satisfy the external capital adequacy requirements, accounting ratios are tracked and forecast regularly. This includes capital service ratios for specific properties, loan-to-value parameters and financial covenants.

The equity ratio including non-controlling interests as of the end of the year is as follows:

Equity ratio in TEUR	2019	2018
Equity	2,394,236	2,048,326
Total assets	5,646,970	5,033,343
Equity ratio in %	**42.4**	**40.7**

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of assets and liabilities is determined by using inputs which are as market-oriented as possible. The valuation hierarchy divides the input factors into three levels depending on the availability of data:

Level 1: Prices quoted in active markets for identical assets or liabilities (such as share prices).
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly for indirectly (i.e. derived from prices).
Level 3: Valuation techniques for which any significant input is not based on observable market data

If input factors for different hierarchical levels are applied, the fair value is calculated on the basis of the lower hierarchical level. There were no transfers between the individual hierarchical levels in the period under review.

The fair values of the financial instruments recorded in the statement of financial position break down as follows:

Fair values of financial instruments in TEUR	Fair value hierarchy	2019	2018
Assets			
Other financial assets	Level 2	4,793	4,815
Other financial assets	Level 3	3,848	3,347
Equity and liabilities			
Derivatives with no hedging relationship	Level 2	71,508	42,005

The change in the book value of the other financial assets with a fair value calculated at Level 3 is composed of outflows of TEUR 47 (previous year: TEUR 562) and changes in fair value through profit and loss of TEUR 531 (previous year: TEUR 175).

They primarily comprise non-listed minority interests in real estate companies and funds. Equity investments are measured partially on the basis of observable market prices (Level 2) and partially on the basis of company-specific models such as customary net asset value models in the light of non-observable market data (Level 3). The inputs used in these methods include assumptions on future cash flows and future real estate prices and are based as closely as possible on market data. A change in the fair value of real estate assets held by associates would have a proportionate effect on the fair value of such associates. At the moment, there is no specific intention for these investments to be sold.

Derivative financial instruments are measured using established methods, the main inputs for which are derived from active markets. The purchase price guarantees, which are recognised as a derivative financial instrument with no hedging relationship, are measured using a standardised process based on a Monte Carlo (mark-to-model) simulation applying two correlated stochastic processes. The conversion right under the convertible bond, which is recognised separately as a derivative, is measured using a binomial model.

In addition, the following financial instruments whose carrying amounts are not sufficiently close to their fair value are measured at amortised cost in the consolidated balance sheet:

		2019		2018	
Financial instruments in TEUR	IFRS 13 Valuation	Book value	Fair value	Book value	Fair value
Liabilities to banks	Level 2	1,901,197	1,977,964	1,855,543	1,892,918
Liabilities from corporate bonds and other loans	Level 2	402,976	405,856	285,763	286,342
Liabilities from convertible bonds	Level 2	258,875	262,493	257,527	276,007
Lease liabilities	Level 2	14,041	14,531	4,482	4,482

The fair value of non-current liabilities is calculated using the discounted cash flow method. The discount rate is based on an appropriate market interest rate.

Trade receivables, other current assets and cash and cash equivalents, which are also recognised at historical cost, have short settlement periods. Accordingly, their book value as of the balance sheet date comes close to their fair value. The same thing applies to current bank borrowings, trade payables and other current liabilities.

PURPOSES OF FINANCIAL RISK MANAGEMENT

The main risks monitored and managed by means of the Group's financial risk management comprise market risks arising from interest rates as well as equity prices, credit, finance and liquidity risks.

MARKET RISKS

The Group's activities expose it to financial risks arising from changes in interest rates. For the most part, long-term bank loans are subject to fixed interest rates. However, there is also a very small volume of floating-rate loans. The corporate and convertible bonds have only fixed interest rates.

As of 31 December 2019, floating-rate loans had a nominal value of EUR 60.5m (previous year: EUR 42.4m). With respect to these loans, an increase/decrease of 0.5% in the interest rate would result in an increase/decrease in annual interest expense of EUR 0.3m (previous year: EUR 0.2m). These effects would directly affect consolidated net profit and consolidated equity in the light of the effect on income tax.

The derivative financial instruments still include the conversion right valued at EUR 65.3m (previous year: EUR 36.9m) arising from the convertible bond issued in 2017 and the purchase price guarantees towards non-controlling shareholders valued at EUR 6.2m (previous year: EUR 5.1m). These derivatives are subject to the risk of changes in interest rates as well as share prices. An increase/decrease of 0.5% in interest rates would cause the obligations under these financial instruments to drop by EUR 0.7m (previous year: increase by EUR 0.3m) or increase by EUR 0.8m (previous year: EUR 0.0m), respectively. An increase/decrease of 5% in share prices would result in an increase of EUR 10.0m (previous year: EUR 10.5m) or a decline of EUR 8.4m (previous year: EUR 8.4m), respectively, in the value of this obligation. The change would directly affect consolidated net profit and consolidated equity in the same amount in the light of the deferred tax effects.

CREDIT RISK MANAGEMENT

Introduction

The credit risk is the risk of a loss for the Group if a counterparty fails to honour its contractual obligations. The book value of the financial assets recognised in the consolidated financial statements less any impairments constitute the Group's maximum credit risk. This does not include any collateral received, particularly rental deposits and liens.

The Group enters into business relations solely with credit-worthy counterparties and, if appropriate, requests collateral to reduce the risk of a loss in the event of the counterparty's failure to satisfy its obligations. In this connection, available financial information as well as the Group's own trading records were used to assess counterparties. Risk exposure is monitored on an ongoing basis.

There are trade receivables due from a large number of customers spread over different regions, all of which are located within Germany. Regular credit assessments are performed to determine the financial condition of the receivables. Material receivables are predominantly held against customers with good credit ratings.

Estimate of expected credit losses

At each reporting date, TAG examines financial assets recognised at amortised cost for any evidence of impairment. A financial asset is impaired if one or multiple events with a negative impact on the expected future cash flows from the financial asset occur.

The gross book value of a financial asset is impaired if the Group does not reasonably believe that it will be possible to recover all or part of the financial asset. Impairments of trade receivables always equal the expected credit loss over their respective term. The Group uses an impairment matrix to measure expected losses on receivables from rental business. These include a very large number of small balances.

The loss ratios are calculated on the basis of a factor method that compares the outstanding receivables with the gross rent, taking into account the rental deposits received. Loss ratios are calculated on the basis of historical data from the last three years in the light of any changes in external factors and are reviewed regularly.

The following table provides information on the estimated credit risk with respect to rentals owed:

Credit risk 31 December 2019 in Mio m	Loss rate	Gross book value	Impairment
Existing rental contracts			
- Faktor ≤ 2	0.3%	14.2	0.1
- Faktor >2 ≤ 3	38%	0.5	0.1
- Faktor >3 ≤ 6	65%	0.9	0.5
- Faktor >6 ≤ 9	80%	0.5	0.4
- Faktor >9	100%	1.1	1.1
Terminated rental contracts	75%	8.9	6.4
Total		26.1	8.6

Credit risk 31 December 2018 in Mio m	Loss rate	Gross book value	Impairment
Existing rental contracts			
- Faktor ≤ 2	0.5%	10.7	0.1
- Faktor >2 ≤ 3	35%	0.5	0.1
- Faktor >3 ≤ 6	50%	0.9	0.3
- Faktor >6 ≤ 9	75%	0.5	0.3
- Faktor >9	100%	0.9	0.9
Terminated rental contracts	75%	9.1	6.7
Total		22.6	8.4

The Group derecognises a financial asset when it is finally determined to be unrecoverable. In making this assessment, the Group takes into account credit information or information from judicial rent collection proceedings, for example.

Impairments of trade receivables

Impairments of trade receivables changed as follows:

Impairments in EUR m	
Balance on 1 January 2018	**11.1**
Amounts adjusted	-4.1
Net changes over expected term	1.5
Balance on 31 December 2018	**8.5**
Amounts adjusted	-2.5
Net changes over expected term	2.6
Balance on 31 December 2019	**8.6**

Receivables had a gross book value of EUR 3.5m in the year under review (previous year: EUR 2.8m). Significant changes in the gross book value of trade receivables regularly result from changes in the normal course of business. The increase is primarily due to utility cost statements in the year under review.

As of 31 December 2019, trade receivables with a nominal value of EUR 4.8m (previous year: EUR 3.8m) were subject to enforcement proceedings.

Other current assets/cash and cash equivalents

The estimate of expected credit losses applicable to other current assets/cash and cash equivalents is based on valuation inputs and external ratings. The expected credit losses are still classified as low.

As of reporting date, the Group had cash and cash equivalents of EUR 91.3m (previous year: EUR 91.7m). Cash and cash equivalents are deposited with banks and financial institutions all of which have an investment grade rating. The estimated impairment of cash and cash equivalents was calculated on the basis of expected losses within twelve months and reflects the short settlement periods. The Group assumes that its cash and cash equivalents are currently exposed to a low risk in view of the external ratings of the banks and financial institutions. The Group has not recognised any impairments for materiality reasons.

The Group had granted short-term loans of EUR 3.6m as of 31 December 2019 (previous year: EUR 3.9m). The impairment of these loans was estimated on the basis of expected losses within twelve months. TAG assumes that the credit risk for any of these assets would increase significantly if the applicable LTV ratio were to exceed 85% or the contractual payments were more than 30 days past due. As the loans are collateralised in full, no impairment was recognised.

LIQUIDITY RISK

The Management Board is responsible for liquidity risk management and has established an appropriate model for managing short, medium and long-term finance and liquidity requirements. The Group controls liquidity risks by maintaining reasonable reserves and bank facilities and by means of ongoing monitoring of forecast and actual cash flows and the reconciliation of the maturities of financial assets and liabilities.

Other financial assets primarily concern investments of an indefinite duration. All other financial assets are due for settlement in less than one year.

The following table shows the contractual, non-discounted interest and principal payments towards financial liabilities:

		Contractual payment		
Maturity of financial liabilities in TEUR	**Book value**	**less than 1 year**	**1 to 5 years**	**more than 5 years**
31 December 2019				
primary financial instruments				
Liabilities to banks	1,901,197	147,313	688,424	1,322,622
Liabilities from corporate bonds and other loans	402,976	54,955	201,904	170,986
Liabilities from convertible bonds	258,875	1,638	265,275	0
Lease liabilities	14,041	2,394	8,395	4,684
Other financial liabilities	25,779	20,334	3,855	2,700
Derivative financial liabilities	71,508	0	65,329	6,179
Total	**2,674,376**	**226,634**	**1,233,182**	**1,507,171**
31 December 2018				
primary financial instruments				
Liabilities to banks	1,855,543	166,271	562,963	1,512,309
Liabilities from corporate bonds and other loans	285,763	38,750	140,000	129,375
Liabilities from convertible bonds	257,527	1,638	266,913	0
Other financial liabilities	31,069	20,267	7,890	5,633
Derivative financial liabilities	42,005	0	36,926	5,079
Total	**2,471,907**	**226,926**	**1,014,692**	**1,652,396**

The option under the convertible bond may be exercised any time until expiry in September 2022. In this connection, TAG has a cash settlement option.

The Group is able to utilise overdraft facilities. The total amount not utilised as of the reporting date stands at EUR 141.2m (previous year: EUR 106.5m). The Group expects to be able to settle its liabilities from operating cash flow, the inflow of financial assets due for settlement and existing credit facilities at all times.

FINANCE RISK

TAG is dependent on raising debt capital on reasonable terms to fund its ongoing business and acquisitions. In the event of a crisis in the international financial markets, TAG could find it substantially more difficult to raise the necessary funding and would thus experience liquidity problems. If this results in any problems in servicing ongoing loans, lenders could institute foreclosure proceedings, with such distress sales leading to considerable financial disadvantages for TAG. TAG is still making use of current market conditions to restructure key loan agreements on a long-term basis in order to mitigate this risk.

In addition, loans of a total of EUR 1,571.2m (previous year: EUR 1,426m), for which financial covenants specifying certain capital service ratios and equity/debt ratios have been agreed, have been raised within the Group. If any of these covenants are breached, premature loan repayments may be necessary. As of the reporting date, all main financial covenants stipulated in loan contracts were complied with.

Similarly, the corporate and convertible bonds as well as the borrower's note loan are subject to certain terms and conditions which, if breached, constitute a liquidity risk. In the event of any breach of these covenants, these bonds and loans can be terminated (see also "Disclosures in accordance with Section 289a and Section 315a (1) of the German Commercial Code".

COLLATERAL

The Group holds collateral in the form of financial assets (on-demand accounts and savings accounts) from tenants valued at around EUR 45.5m (previous year: EUR 42.6m). The relevant contracts provide for collateral equalling three monthly rental instalments to be provided.

OTHER DISCLOSURES

OTHER FINANCIAL OBLIGATIONS

As of 1 January 2019, liabilities under operating leases are accounted for in accordance with IFRS 16. In addition, there are financial obligations of TEUR 2,290 (previous year: TEUR 2,325) particularly under service or licence contracts. Of these, an amount of TEUR 285 (previous year: TEUR 568) is only due for settlement in one to five years.

FEES PAYABLE TO STATUTORY AUDITORS

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the annual and consolidated financial statements of TAG Immobilien AG as well as the annual financial statements of various subsidiaries where mandatory audits were required. In addition, two voluntary audits of the annual financial statements of subsidiaries were performed and consulting services provided on the tax deductibility of interest on debt (interest barrier). In the previous year, consulting services had also been provided in connection with the tax risk management system, training was provided for internal further education purposes, a workshop was held in connection with the non-financial statement and a certificate was issued in connection with compliance with financial covenants.

The fees of a total of EUR 903 (previous year: TEUR 991) (plus value added tax at the statutory rate) payable within the entire Group for the services of the statutory auditors break down as follows:

- TEUR 890 (previous year: TEUR 966) for auditing services
- TEUR 2 (previous year: TEUR 2) for other attestation services
- TEUR 10 (previous year: TEUR 10) for tax advisory services, and
- TEUR 1 (previous year: TEUR 13) for other services.

The fees for auditing activities include trailing costs of TEUR 5 (previous year: TEUR 49) for the prior year and also fees of TEUR 37 for the audit of one subsidiary's annual financial statements for 2018.

HEADCOUNT

TAG had the following average number of employees in the previous financial years:

Employees	2019	2018
Operational employees	556	517
Administration and central area	112	108
Caretakers	423	310
Craftsmen	69	58
Total	**1,160**	**993**

RELATED PARTIES

As in the previous year, there were no transactions with related parties with the exception of the remuneration paid to the Company's governance bodies as listed below.

SUPERVISORY BOARD

The members of the Supervisory Board and the offices held by them in other supervisory boards or comparable domestic and international corporate governance bodies in the year under review are listed below:

- Rolf Elgeti, businessman, Potsdam (Chairman)
  - Deutsche Leibrenten Grundbesitz AG, Frankfurt am Main (Chairman)
  - NEXR Technologies SE (formerly: Staramba SE), Berlin (Chairman, since February 2019)
  - Laurus Property Partners GmbH, Munich
  - creditshelf Aktiengesellschaft, Frankfurt am Main (Chairman)
  - Highlight Event and Entertainment AG, Pratteln, Switzerland
- Mr Lothar Lanz, businessman, Munich (Deputy Chairman)
  - Axel Springer SE, Berlin (until April 2019)
  - Zalando SE, Berlin (Chairman, until May 2019)
  - Home24 SE, Berlin (Chairman)
  - Bauwert AG, Bad Kötzting
  - Dermapharm Holding SE, Grünwald
- Dr. Philipp K. Wagner, attorney, Berlin
  - Hevella Capital GmbH & Co. KGaA, Potsdam
  - Prof. Dr. Kristin Wellner, university professor, Leipzig
  - Harald Kintzel, attorney, Berlin, employee representative
  - Marco Schellenberg, real estate management assistant, Gera, employee representative

The remuneration paid to the Supervisory Board in the year under review came to TEUR 365 (previous year: TEUR 365) plus expenses and value added tax.

MANAGEMENT BOARD

The members of the Management Board and the offices which they hold in other supervisory boards or comparable domestic and non-domestic supervisory bodies in 2019 are set out below:

- Claudia Hoyer, Chief Operating Officer, Potsdam
  - Vantage Development S.A., Wroclaw, Poland (since January 2020, Group mandate)
- Martin Thiel, Chief Financial Officer, Hamburg
  - Vantage Development S.A., Wroclaw, Poland (Deputy Chairman, since January 2020, Group mandate)
- Dr. Harboe Vaagt, Chief Legal Officer, Hamburg
  - TAG Colonia-Immobilien AG, Hamburg (Chairman, Group mandate)
  - Vantage Development S.A., Wroclaw, Poland (Chairman, since January 2020, Group mandate)

Remuneration accruing to the Management Board in the year under review came to TEUR 1,809 (previous year: TEUR 1,861).

Further details of the remuneration paid to the members of the Supervisory Board and the Management Board can be found in the section entitled "Report on the Company's remuneration system (remuneration report)"

CORPORATE GOVERNANCE CODE DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

The joint declaration of the Management Board and the Supervisory Board concerning the recommendations of the Government Commission on the German Corporate Governance Code required pursuant to Section 161 (1) of the German Stock Corporation Act has been prepared and made available to shareholders on the TAG website.

MATERIAL EVENTS AFTER THE REPORTING DATE

On 8 November 2019, TAG signed a contract for the acquisition of all the shares in Vantage Development S.A. ("Vantage"). The acquisition of the shares in Vantage became legally effective on 13 January 2020.

There were no other reportable events.

Hamburg, 17 February 2020

Claudia Hoyer	**Martin Thiel**	**Dr. Harboe Vaagt**
COO	**CFO**	**CLO**

LIST OF SHAREHOLDINGS IN ACCORDANCE WITH SECTION 313 (2) OF THE GERMAN COMMERCIAL CODE

Name of company	Registered office	Share in capital %
Parent company		
TAG Immobilien AG	**Hamburg**	
In den Konzernabschluss einbezogene, vollkonsolidierte Tochterunternehmen		
Bau-Verein zu Hamburg Immobilien GmbH	Hamburg	100.0
Bau-Verein zu Hamburg Wohnungsgesellschaft mbH	Hamburg	100.0
BV Hamburger Wohnimmobilien GmbH	Hamburg	100.0
VFHG Verwaltungs GmbH	Hamburg	100.0
Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH	Hamburg	100.0
Bau-Verein zu Hamburg „Junges Wohnen" GmbH	Hamburg	100.0
URANIA Grundstücksgesellschaft mbH	Hamburg	100.0
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH	Hamburg	100.0
Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH	Hamburg	100.0
TAG Handwerkerservice GmbH	Hamburg	100.0
TAG Steckelhörn Immobilien GmbH	Hamburg	100.0
TAG Brandenburg-Immobilien GmbH	Hamburg	100.0
TAG Gotha Wohnimmobilien GmbH & Co. KG	Hamburg	100.0
TAG Wohnen & Service GmbH	Hamburg	100.0
TAG Immobilien Verwaltung	Hamburg	100.0
TAG Potsdam-Immobilien GmbH	Hamburg	100.0
TAG Portfolio Mecklenburg-Vorpommern GmbH&Co.KG	Hamburg	100.0
TAG Immobilien Wohn-Invest GmbH	Hamburg	100.0
TAG Wohnungsgesellschaft Mecklenburg-Vorpommern mbH	Hamburg	100.0
TAG Wohnungsgesellschaft Sachsen mbH	Hamburg	100.0
TAG Portfolio Sachsen GmbH&Co.KG	Hamburg	100.0
TAG Immobilien Service GmbH	Hamburg	100.0
TAG Beteiligungs- und Immobilienverwaltungs GmbH*	Hamburg	100.0
Energie Wohnen Service GmbH*	Hamburg	100.0
TAG Finance Holding GmbH	Hamburg	100.0
TAG Beteiligungsverwaltungs GmbH	Hamburg	100.0
TAG Nordimmobilien GmbH	Hamburg	100.0
TAG Sachsenimmobilien GmbH	Hamburg	100.0
TAG NRW-Wohnimmobilien & Beteiligungs GmbH	Hamburg	100.0
TAG 1. NRW-Immobilien GmbH	Hamburg	100.0
TAG 2. NRW-Immobilien GmbH	Hamburg	100.0
TAG Leipzig-Immobilien GmbH	Hamburg	100.0
TAG Marzahn-Immobilien GmbH	Hamburg	100.0
TAG SH-Immobilien GmbH	Hamburg	100.0
TAG Magdeburg-Immobilien GmbH	Hamburg	100.0
TAG Grebensteiner-Immobilien GmbH	Hamburg	100.0
TAG Klosterplatz-Immobilien GmbH	Hamburg	100.0
TAG Wolfsburg-Immobilien GmbH	Hamburg	100.0
TAG Chemnitz-Immobilien GmbH	Hamburg	100.0
TAG Spreewaldviertel-Immobilien GmbH	Hamburg	100.0
TAG Wohnen GmbH*	Hamburg	100.0
TAG Stadthaus am Anger GmbH	Hamburg	100.0
TAG TSA Wohnimmobilien GmbH*	Hamburg	100.0
Multimedia Immobilien GmbH	Hamburg	100.0
TAG Zuhause Wohnen GmbH	Hamburg (formerly: Berlin)	100.0
Perseus Immobilien Gesellschaft 9 S.à.r.l.	Luxemburg	100.0
TAG Greifswald-Immobilien GmbH	Hamburg	100.0
TAG Residential Real Estate Sp.z.o.o.	Warsaw, Polend	100.0
Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG	Hamburg	98.1
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH	Hamburg	94.8
TAG Bartol Immobilien GmbH	Hamburg	94.8
TAG Certram Immobilien GmbH	Hamburg	94.8
TAG Sivaka Immobilien GmbH	Hamburg	94.8
TAG Zidal Immobilien GmbH	Hamburg	94.8
TAG Chemnitz Straubehof Immobilien GmbH	Hamburg	94.8
TAG Chemnitz Muldental Immobilien GmbH	Hamburg	94.8
TAG Chemnitz Zeisigwald Immobilien GmbH	Hamburg	94.8
TAG Havel-Wohnimmobilien GmbH	Hamburg	94.8
TAG Wohnungsgesellschaft Thüringen mbH	Hamburg	94.0
TAG Portfolio Thüringen GmbH & Co. KG	Hamburg	94.0
TAG Wohnungsgesellschaft Gera mbH	Hamburg	94.0
TAG Wohnungsgesellschaft Gera-Debschwitz mbH	Hamburg	94.0
TAG Grasmus Immobilien GmbH	Hamburg	84.8
Emersion Grundstücksverwaltungsgesellschaft mbH	Hamburg	84.8
Domus Grundstücksverwaltungsgesellschaft mbH	Hamburg	84.8
TAG Colonia-Immobilien AG	Hamburg	84.2
Colonia Wohnen GmbH	Hamburg	84.2
Colonia Immobilien Verwaltung GmbH	Hamburg	84.2
Colonia Portfolio Ost GmbH	Hamburg	84.2
Colonia Portfolio Berlin GmbH	Hamburg	84.2
Colonia Portfolio Bremen GmbH & Co. KG	Hamburg	84.2
Colonia Portfolio Hamburg GmbH & Co. KG	Hamburg	84.2
Colonia Wohnen Siebte GmbH	Hamburg	84.2
Colonia Portfolio Nauen GmbH & Co. KG	Hamburg	84.2
TAG Wohnimmobilien Halle GmbH & Co. KG	Hamburg	84.2
FC REF I GmbH	Grünwald	80.0
FC REF II GmbH	Grünwald	80.0

Name of company	Registered office	Share in capital %	Equity TEUR	Consoli-dated net income TEUR
Companies reported at equity				
Altstadt Assekuranzvermittlung und Schadensmanagement GmbH**	Hamburg	49.0	30	2
Texas Gewerbeimmobilien S.à.r.l. i.L. ***	Luxembourg	20.0	-2,438	73

* Exemptions provided for in Section 264 (3) of the German Commercial Code utilised
** Figures based on the single-entity German GAAP (HGB) financial statements as of 31 December 2018
*** Figures based on the single-entity Luxembourg GAAP financial statements as of 31 December 2018

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of TAG Immobilien AG, Hamburg, and its subsidiaries (the group), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2019 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of TAG Immobilien AG for the financial year from 1 January to 31 December 2019. In accordance with German statutory requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

The combined management report contains cross-references marked as unaudited and not required by law. In accordance with German legal requirements, we have not audited the content of these cross-references or the information to which they refer.

In our opinion based on the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, provide a true and fair view of the assets, liabilities and financial position of the group as at 31 December 2019 and of its financial performance for the period from 1 January to 31 December 2019, and

- the accompanying combined management report as a whole provides an appropriate view of the group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not include the content of those components of the combined management report specified in the "Other Information" section of the auditor's report. The combined management report contains cross-references marked as unaudited and not required by law. Our audit opinion does not extend to these cross-references or the information to which the cross-references refer.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for the Audit of Financial Statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and and principles are described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Measurement of the fair value of investment properties

We refer to the comments in the notes to the consolidated financial statements on the measurement of the fair value of investment properties ("Recognition and measurement principles" and "1. Investment properties") and to the related measurement uncertainties ("Material judgments and estimates") and to the combined management report on the remeasurement of the real estate portfolio ("Business development").

Risks to the financial statements
TAG Immobilien AG has recognized within its non-current assets investment properties valued at EUR 5,200.0 million (92.1% of its total assets), which were measured at their fair value as of the reporting date. Fair value measurement of the investment properties for the year under review resulted in a measurement gain of EUR 414.1 million, which was recognised through profit and loss.

The fair values of the investment properties are calculated on the basis of opinions prepared by the independent expert whose services are retained for this purpose. Among other things, the expert opinions are based on data provided by the company (e.g. floor space available for leasing, vacancies and current rents). Fair value is calculated using the discounted cash flow method on the basis of expected future cash flows. Accordingly, a number of material inputs for these calculations such as future rental income, property management costs and the discount rates to be applied are estimated by the independent experts.

In addition to actual data, forward-looking data subject to some discretionary leeway is required for the calculations. Forward-looking estimates are inherently subject to uncertainty and may have a significant impact on the calculation of fair values and, hence, the presentation of the company's assets, liabilities and financial performance. The financial statements are exposed to a risk in that the fair value of the investment properties may be incorrectly measured and that the measurement methods applied and the uncertainties for estimates are not explained appropriately in the notes to the consolidated financial statements.

The approach taken in our audit

To assess the appropriateness of the data used to calculate fair value and of the underlying assumptions and other parameters, we implemented our own measurement specialists. In talks with the Management Board, representatives of the company's departments (particularly real estate accounting and group financial accounting) and the external experts retained by the company, we sought to gain an understanding of the appropriateness of the measurement method applied, the measurement process and the independent expert's activities. We then sought to satisfy ourselves of the appropriateness and efficacy of the controls used for ensuring that the actual data had been collected free of any errors or omissions, processed appropriately and made available to the independent expert and for ensuring that the determining factors applied by such independent expert were reasonable.

We assessed the competence, capabilities and objectivity of the independent expert and the opinion which he had prepared. For this purpose, we checked the actual data (address, floor space available for letting, vacancies, actual rents) used for calculating the fair value of the investment properties against the company's current tenant lists for selected assets on a random and risk-oriented basis among other things. In addition, we assessed the assumptions applied to determine the rents prevailing in the real estate market, structural vacancies and discount and capitalization rates in the light of the type and location of the assets selected on a risk-oriented basis by means of a comparison with the market and sector-specific benchmarks.

We compared the general assumptions underlying the measurements (growth in rents, operating, administration and maintenance costs, periods required for follow-up lease etc.) with general and sector-specific market expectations. We compared the average multiples arising from the fair values and assumed market rents per location in the light of the characteristics of the individual asset and location with multiples derived from reports issued by real estate associations and renowned real estate brokers.

As well as this, we assessed whether the explanations provided by the company in the notes to the consolidated financial statements on the calculation of the fair value of the investment properties and the related uncertainties were presented appropriately.

Our conclusions

The assumptions and parameters applied in the measurement of investment properties are appropriate and are in accordance with the valuation principles for the measurement of investment properties. The explanations in the notes to the consolidated financial statements are appropriate.

OTHER INFORMATION

Management and/or the Supervisory Board is responsible for the other information. Other information comprises:

- the corporate governance declaration referred to in the combined management report,
- the non-financial group report, which is expected to be submitted to us after the date of this opinion, to which reference is made in the combined management report, and
- the information contained in the combined management report that is not required by law or German Accounting Standard No. 20 and is marked as unaudited.

The other information also includes the remaining components of the annual report with the exception of the consolidated financial statements, the audited parts of the combined management report and our auditor's report on these.

Our opinions on the consolidated financial statements and the combined management report do not cover the other information and consequently we do not express an opinion or any other form of assurance conclusion on such information. In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited contents of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and for ensuring that the consolidated financial statements provide a true and fair view of the the assets, liabilities, financial position, and financial performance of the group in compliance with these requirements. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the group's ability to continue as a going concern. In addition, it is responsible for disclosing all relevant matters relating to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance but is no guarantee that an audit conducted in accordance with Section 317 HGB, the EU Audit Regulation and the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal any material misstatement. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements provide a true and fair view of the group's assets, liabilities and financial performance in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the group's position it provides.

- Perform audit procedures on the prospective information presented by management in the com-bined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS
Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 7 May 2019. We were engaged by the Supervisory Board on 14 June 2019. We have been the group auditor of the TAG Immobilien AG without interruption since the financial year 2012.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Mr Rainer Thiede

Hamburg, 18 February 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Thiede
Wirtschaftsprüfer

Bagehorn
Wirtschaftsprüfer

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the Group's assets, financial position and earnings situation, and the group management report includes a fair review of the development and performance of the business and the Group's situation, as well as a description of the principal opportunities and risks associated with the expected development of the Group.

Hamburg, 17 February 2020

Claudia Hoyer
COO

Martin Thiel
CFO

Dr. Harboe Vaagt
CLO

TAG FINANCIAL CALENDAR 2020

PUBLICATIONS / EVENTS

27 February 2020	Publication of Annual Report 2019
23 April 2020	Publication of Sustainability Report 2019
14 May 2020	Publication of Interim Report – Q1 2020
18 May 2020	Annual General Meeting, Hamburg
26 May 2020	Capital Markets Day, Wraclaw (Breslau)
20 August 2020	Publication of interim report – Q2 2020
12 November 2020	Publication of interim report – Q3 2020

CONFERENCES

9 January 2020	Oddo BHF Forum, Lyon
20 January 2020	Kepler Cheuvreux German Corporate Conference, Frankfurt
24 March 2020	Bankhaus Lampe German Conference, Baden-Baden
26 March 2020	Jefferies Equity-Linked Conference, London
27 March 2020	BofAML European Real Estate Conference, London
2 April 2020	Commerzbank Real Estate Forum 2020, London
19 May 2020	Barclays Real Assets Conference, London
20 May 2020	Kempen European Property Seminar, Amsterdam
4 June 2020	dbAccess Berlin Conference, Berlin
10 June 2020	Goldman Sachs Fintech Conference, Rom
17 June 2020	Kepler Cheuvreux German Property Day, Paris
3 September 2020	Commerzbank Corporate Conference, Frankfurt
8-10 September 2020	EPRA Conference 2020, Paris
15-16 September 2020	BofAML Global Real Estate Conference, New York
21 September 2020	Berenberg & Goldman Sachs Corporate Conference, München
22 September 2020	Baader Investment Conference, München

TAG Headquarter Hamburg

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The English version of the 2019 annual report is a translation of the German version. The German version is legally binding.

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